NATIONAL ASSEMBLY OF ZAMBIA

PUBLIC FINANCE MANAGEMENT HANDBOOK

for Members of Parliament and Staff

March 2023

Republic of Zambia

This programme is funded by the European Union

Disclaimer:

This Public Financial Management Handbook was produced by the EFFECT Programme component "Support to the National Assembly of Zambia II'", a project funded by the EU. The contents of this publication are the sole responsibility of the contractor providing the technical assistance to 'Support to the National Assembly of Zambia II" and can in no way be taken to reflect the views of the National Assembly of Zambia or the European Union.

March 2023

FOREWORD

The National Assembly of Zambia performs four main functions, namely: law-making, representation, budget approval and oversight. Its authority is derived from the Constitution of Zambia as amended in 2016.

While the National Assembly has the formal powers to keep the Executive accountable for its actions and policies, including its management of public financial resources, the challenge is to use this mandate to effectively ensure that the Executive adheres to prudent public financial management principles and fiscal policy targets, including maintaining aggregate fiscal discipline and ensuring that public resources are used equitably, efficiently, effectively and accountably.

The National Assembly has been undertaking various reforms since the 1990s including those meant to strengthen the budget approval and oversight functions. Part of these reforms were carried out with the assistance from the European Union (EU) Support to the National Assembly of Zambia Project from 2014 to 2018. The implementation of the Project led to the establishment of the Parliamentary Budget Office (PBO); a key office meant to provide technical support to parliamentary committees and Members of Parliament (MPs) on matters related to Public Financial Management (PFM). It was during the same period that the PFM Handbook was developed in 2017.

The National Assembly is implementing Phase II of the EU Support to the National Assembly of Zambia Project, whose purpose is to enhance the parliamentary budgetary oversight function and public awareness of parliamentary activities and policy debates. In order to reflect the new developments in Zambia's PFM, the 2017 Edition of the PFM Handbook has been revised with the assistance through Phase II of the EU Support to the National Assembly of Zambia Project. Notable recent developments in PFM include the enactment of the: Public Finance Management Act, 2018; National Planning and Budgeting Act, 2020; Public Procurement Act, 2020; and Public Debt Management Act, 2022.

However, the purpose of the Handbook remains to serve as a toolkit for the strengthening of the National Assembly in the performance of its oversight mandate in PFM. It provides a comprehensive introduction to the concepts, objectives and scope of public financial management and serves as a reference and self-training manual for MPs and staff of the National Assembly on issues related to PFM.

The content of the Handbook and presentation have also been revised to make the material much easier to understand and more accessible to the reader, whether MPs, Civil Society Organisations (CSOs) or citizens. This revised PFM Handbook is intended to be useful reference for those overseeing the Government and to clarify the workings of the budget cycle. Readers are also encouraged to seek further clarification from the PBO if they have any questions on the Handbook.

This revised PFM Handbook is neither intended to be used as a textbook nor does it represent an assessment of the effectiveness of Zambia's current PFM operational performance. It is, therefore, my hope that MPs, staff of the National Assembly including all those who have interest in matters of PFM will find this Handbook useful.

Finally, I would like thank all the stakeholders for making this publication a reality. Special gratitude goes to the EU for the financial support, staff of the National Assembly and the NIRAS Technical Assistance Team for putting the material together, and the consultants who were engaged in the revision process.

Rt Hon Nelly B K Mutti, MP, FAPRA

Speaker of the National Assembly of Zambia

ACKNOWLEDGMENT

I would like to thank the Speaker, Rt. Hon. Madam Nelly B. Mutti, MP, for her unwavering support to modernise the National Assembly of Zambia and leadership during the revision of the Parliamentary Handbook for Members of Parliament and Staff which was initially published in 2017. A number of policy and legislative reforms have since taken place from 2017 which made its revision imperative.

The Handbook is testament to the progress being made by the National Assembly through the Parliamentary Budget Office towards its full implementation, and its effective collaboration with key stakeholders, made possible with the financial support of the European Union. The fact-checking provided by the Ministry of Finance and National Planning, as well as the Office of the Auditor General has helped validate this key resource.

Roy Ngulube

Acting Clerk of the National Assembly

TABLE OF CONTENTS

Annex 1

Figures

Tables

ACRONYMS

AAPPG	Africa All Party Parliamentary Group
AFROSAI	African Organisation of Supreme Audit Institutions
AFROSAI-E	African International Organisation of Supreme Audit Institution for English Speaking Countries
CDF	Constituency Development Fund
COFOG	Classification of the Functions of Government
COMESA	Common Market for Eastern and Southern Africa
CSO(s)	Civil Society Organization (s)
E-GP	Electronic Government Procurement
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
GAAP	Generally Accepted Accounting Principles
GBEs	Government Business Enterprises
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
IASB	International Accounting Standards Board
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management Information System
IFRS	Internal Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISSAIs	International Standards of Supreme Audit Institutions
LGEF	Local Government Equalisation Fund
MPSA (s)	Ministries, Provinces, and Spending Agencies
MTBP (s)	Medium-Term Budget Plan (s)
NAI	National Audit Institutions
NDP(s)	National Development Plan (s)
OBB	Output-Based Budgeting
OECD	Organization for Economic Co-operation and Development
PFMR	Public Financial Management Reforms Programmes
PETS	Public Expenditure Tracking Surveys
PFM	Public Financial Management
PFMA	Public Financial Management Act
PPA	Public Procurement Act
SAC	Social Accountability
SAIs	Supreme Audit Institutions
SME(s)	Small and Medium-sized Enterprise (s)
VAT	Value Added Tax
Zamstats	Zambia Statistics Agency
ZPPA	Zambia Public Procurement Authority
ZRA	Zambia Revenue Authority

INTRODUCTION

This Handbook on Public Financial Management (PFM) for Members of Parliament and Staff of the National Assembly contains fourteen chapters. The first three chapters concern themselves with topics of a general and crosscutting nature, including a general introduction to the concept of public financial management and the institutional, policy and legal framework for public financial management in Zambia. The remaining chapters are structured along the budget cycle, encompassing the budget formulation stage, the budget scrutiny and approval stage, the budget execution stage and the post-budget implementation stage.

The Handbook provides Members of Parliament and Members of Staff of the National Assembly with a general introduction to the concepts of public financial management and good financial governance, and guidance on the role and responsibilities of the National Assembly throughout the budget cycle, including inter alia the assessment of the Medium-Term Budget Plan (MTBP) and the annual budget; budget debate and approval; monitoring and budget follow-up during budget execution and scrutiny of the end-of-year Financial Report by the Accountant General; and the consideration of the Report of the Auditor-General on the Accounts of the Republic and such other accounts. The last chapter explains fiscal decentralisation. In this way, the reader will be introduced to aspects of PFM in a comprehensive and coherent manner with emphasis on the National Assembly's mandated role during the various stages of the budget cycle.

While the Handbook describes legal and institutional frameworks, as well as systems and procedures in the Zambian context, its purpose is not to assess strengths or weaknesses in the structures, systems, or functionality of PFM in Zambia. Rather, the Handbook explains how the various components of PFM work in a Zambian or international context as deemed relevant, and ways and means to make PFM work better and more effectively.

In keeping with the budget cycle structure, some topics may appear more than once in the Handbook. This, however, does not imply a duplication of the contents as the topics are addressed from different angles depending on the stage in the budget cycle. The following example illustrates this. While chapter two "The National Planning and Budgetary Framework" explains the structure and various elements of the planning and budgeting system, chapter five "The Role of the National Assembly in National Planning and Budgeting" explains how this system works in practice during the process of compiling the MTBP and the annual budget.

While the Handbook can be used as a stand alone document, it may be used to best advantage in conjunction with the support of the key readings listed at the end of each chapter. To assist readers not fully acquainted with PFM, a glossary explaining the many concepts and terms used in the Handbook is attached in Annex 1.

THE MEANING AND OBJECTIVES OF PUBLIC FINANCIAL MANAGEMENT

CHAPTER ONE

The Meaning and Objectives of Public Financial Management

1.0 Introduction

Governments across the world are constantly searching for ways to improve their public financial management (PFM) systems. This chapter examines how the basic PFM, accounting, budgeting and organisational frameworks supporting the management of public funds have been modernised. In line with the overall theme of this handbook, the chapter does not propose new ideas, but identifies good practices and the implementation of the PFM framework, whose success depends largely on the institutionalisation of the measures adopted as means of managing public finances.

In the case of Zambia, the Constitution of Zambia (Amendment) Act No. 2 of 2016 had new provisions on PFM. Other legal reforms which aimed at strengthening PFM included enactment of the Public Finance Management Act No. 1 of 2018, the Public Procurement Act No. 8 of 2020, the National Planning and Budgeting Act No. 1 of 2020, and the Public Debt Management Act No. 15 of 2022.

1.1 What is PFM?

According to Lawson (2015), public financial management refers to the set of laws, rules, systems and processes used by governments to mobilise revenue, allocate public funds, undertake public spending, and account for funds and audit results. It encompasses a broader set of functions than just financial management and is commonly conceived as a cycle of six phases beginning with policy design and ending with external audit and evaluation.

1.1.1 The PFM Framework

PFM is regarded as an umbrella term for a variety of loosely related processes for managing government finances, including a set of processes for estimating economic conditions and prospects, allocating public resources or money and reporting financial results. It sprawls across many fields and practices that contribute to management of public finance, such as economics, public finance, accounting, auditing, policy analysis, programme evaluation, public administration, political economy and political science.

1.2 Objectives of PFM

The objectives of PFM have been distilled since the mid-1990s when Zambia changed its political system from that of being a One-party State to a Multi-party one. The basic objectives, which are arrayed from highly aggregate policies to discrete actions enable effective delivery of public services and are closely associated with poverty reduction and economic growth. Countries with robust, transparent and accountable PFM systems tend to deliver services more effectively and equitably and regulate markets more efficiently and fairly. In this sense, good PFM is a necessary condition for most development outcomes. Further, a key element of statehood is the ability to tax fairly and efficiently, and to spend responsibly.

These fundamental characteristics of PFM generate trust, and promote transparency and accountability among citizens and stakeholders, thereby allowing societies to flourish . Therefore, improving the effectiveness of a PFM system can generate widespread and long-lasting benefits, and help to reinforce broader societal shifts towards inclusive institutions and, ultimately, stronger states, poverty reduction, greater gender equality and balanced economic growth. In the recent couple of years, PFM systems have been tested in terms of their responsiveness to human and natural occurances such as the global financial crisis, geo-political conflicts, debt crisis, droughts, floods, earthquakes and diseases including the COVID-19 Pandemic. Reforming PFM systems can safely be said to have become more critical at this point of human history.

Even where cooperating partners staff do not seek to strengthen PFM systems, they need to understand them because they will often work through them, by providing budget support, climate finance, green finance or with them, by providing project finance.

1.2.1 Objectives of the PFM System

It is generally accepted that a PFM system should aim at achieving a number of objectives as set out below.

a. Maintenance of aggregate fiscal discipline: it should ensure that aggregate levels of revenue collection and public spending are consistent with planned targets for the fiscal balance, and that they do not generate unsustainable levels of public borrowing.

b. Ensuring that public resources are allocated to set strategic priorities. In other words, allocative efficiency should be achieved.

c. Ensuring that operational efficiency is achieved in the sense of achieving maximum value for money in the delivery of goods and services.

d. Ensuring that due process is not only followed, but also seen to be followed through enhanced transparency, with information publicly accessible, and application of democratic checks and balances to ensure accountability.

e. Creating a balance among revenues and expenditures, the debt level and other fiscal aggregates to promote economic stability and sustainability during the medium-term and beyond. This means that the aggregates should not simply be the sum of revenue and spending actions, but should also firmly limit and monitor expenditures, and drive budget decisions through top-down procedures that constrain spending biases. This objective is not well served by annual budgets that measure policy implications only for the year immediately ahead, or the cash basis of accounting, which recognises only liabilities for which current payments are made.

1.2.2 Effective Allocation of Resources to Ministries, Provinces and other Spending Agencies

Public money should be allocated based on programme effectiveness, and in furtherance of the priorities of the Government. However, for decades, this objective has been hampered by the entrenched incrementalism of public budgets. The Government invests more in policy analysis and programme evaluation with the result usually being only a marginal impact on allocations.

Democratic governance requires government finances to be administered and supervised well so that public goods and services contribute to the prosperity of the nation and its citizens. The legislature, as an oversight body, plays an important role in the PFM system. That role can be separated into two broad phases, namely consideration and approval of the government's plans for the raising and spending of revenue through proposed budgets, and monitoring of expenditure to ensure that it conforms to the terms approved by Parliament. It is necessary to enhance the effectiveness of the National Assembly in monitoring expenditure and regulatory controls in order to maximise the public benefit of PFM.

In subsequent chapters, the handbook covers the substantive control of public finances through the legislative, budgetary, procurement, and debt management frameworks. These also draw experiences from multilateral, international regional regulations such as Southern Africa Development Community(SADC), International Monetary Fund(IMF), and World Bank outlining standards for public expenditure scrutiny.

Box 1: The Meaning and Objectives of Public Financial Management

The simple passage from expenditure to financial management has broadened its focus from the narrowly defined budget to all aspects of managing public resources, including resource mobilisation and debt management, with a progressive extension to the medium- to long-term implications and risks to public finances of today's policy decisions.

PFM refers to the set of laws, rules, systems and processes used by sovereign nations (and sub-national governments) to mobilise revenue, allocate public funds, undertake public spending, account for funds and audit results.

The key objectives of PFM are the maintenance of a sustainable fiscal position, the effective allocation of resources, and the efficient delivery of public goods and services.

The emphasis of this handbook is on the set of systems, processes and rules that can counter the well-documented deficit bias inherent in the political process. In this regard, information on past, current and future fiscal developments is of paramount importance. Without sustainable public finances, effectiveness and efficiency run the risk of becoming secondary objectives.

The maintenance of the aggregate fiscal discipline of a PFM system should ensure that aggregate levels of revenue collection and public spending are consistent with targets for the fiscal balance and do not generate unsustainable levels of public borrowing.

The PFM system should follow the due process and be seen to do so, by being transparent, with information publicly accessible, and applying democratic checks and balances to ensure accountability.

Public money should be allocated based on evidence of programme effectiveness and in furtherance of the priorities of the Government.

The Legislature, as an oversight institution, plays an important role in the PFM system that can be separated into two broad phases, consideration and approval of the Government's plans for the raising and spending of revenue through proposed budgets, and the monitoring of expenditure.

1.3 Conclusion

Well-designed and well-functioning financial management systems are essential prerequisites for effective states and development outcomes. The aims of public financial management are the provision of services to citizens and optimum and sustainable use of public resources through aggregate fiscal discipline, allocative efficiency, equity, redistribution of wealth and value for money in a transparent and accountable way. While a universal, 'one size fits all' PFM model does not exist, it is generally recognised that good PFM systems build on a set of key principles, such as:

- Comprehensive and clear legislative frameworks, rules and procedures;
- Effective institutions with clear mandates;
- Transparency and accountability in government operations;
- Effective coordination of national planning and budgeting functions and processes;
- Credible budgeting processes and budgets;
- Broad non-governmental involvement throughout the planning and budgeting cycle; and
- Effective parliamentary oversight.

In line with these guiding principles, the objectives of the National Planning and Budgeting Act, No. 1 of 2020, are to:

a. Integrate national planning and annual budgeting processes with a greater results-orientation;
b. Strengthen synergies in the various planning processes;
c. Facilitate more participatory/decentralised development planning and budgeting processes;
d. Enhance budget credibility;
e. Facilitate greater evidence-based decision-making in development planning and budgeting; and
f. Strengthen the oversight function of the legislature.

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THE NATIONAL PLANNING AND BUDGETARY FRAMEWORK

CHAPTER TWO

The National Planning And Budgetary Framework

2.0 Introduction

The integrated national planning and budgeting framework is the overall context within which Ministries, Provinces and Spending Agencies (MPSAs) develop their medium-term and annual plans and associated multi-year and annual budget estimates. Hence, the successful implementation of National Development Plans (NDPs) depends on MPSAs' ability to develop plans and budgets that contribute to the realisation of the goals and objectives set out in the national framework. This chapter explains the linkages among the national policy and strategic planning framework, and the budgeting process, including medium-term budget plans and the annual budgets.

In Zambia, multi-year and annual budgets are anchored on long-term NDPs and medium-term sectoral planning frameworks. To link long-term and medium-term development plans and policies to the budgeting process, Zambia uses the Medium-Term Budget Plan (MTBP) as the basis on which the implementation of the NDP[1] is anchored. The annual Budgets operationalise the NDP.[2] Therefore, Members of Parliament and National Assembly staff should familiarise themselves with long-term and medium-term plans, strategies and policies, and carefully examine the extent to which annual Budgets reflect the objectives of the former. This is important for ensuring that the Executive implements policies, strategies and programmes in accordance with the objectives of the National Vision (Vision 2030).

2.1 National Planning

The Zambian Government prepares NDPs, MTBPs and National Budgets based on the legal frameworks mentioned in chapter three. To varying degrees, depending on the state of the economy, the Government's preparation of PFM system instruments, such as NDPs, MTBPs and National Budgets, can be inclusive and participatory. Ideally, the Government develops these instruments in close consultation with the citizens, the private sector, Civil Society Organisations (CSOs) and other stakeholders in order to develop clear strategies based on citizens' perceived needs and priorities. The plans provide strategic policy direction and objectives, key national result areas and national outcomes over a multi-year time horizon, typically over five (5) years [3]. The plans define desired development outcomes to be achieved; build consensus on the obstacles to, and opportunities for, achieving those outcomes; define the different sectors' and stakeholders' roles in, and contribution to, the achievement of the outcomes; and provide strategic frameworks within which more detailed planning and budgeting can take place at regular intervals

2.2 Budgeting

The National Budget, as approved by Parliament, legally grants the Executive power to collect revenues, incur expenditures by withdrawing from the Consolidated Fund, and borrow money for a given fiscal year. The Budget is, therefore, the country's main means of allocating and raising resources within a specified period.

2.2.1 Medium-Term Budget Plan

The medium-term budget planning approach applied in Zambia encompasses the forecasting of all revenues and expenditures over a three-year rolling period. These forecasts are articulated in the three-year MTBP, which links the NDP and medium-term sectoral plans with the annual Budget. In principle, this results in better predictability, programming and control over public revenues and expenditure, and promotion of greater efficiency and effectiveness in the implementation of public policies, programmes and projects

1. Section 36 (1) of the National Planning and Budgeting Act No. 1 of 2020 Provides that the Minister responsible for finance shall, on an annual basis, prepare the medium-term budget plan, which shall form the basis of the implementation of the National Development Plan.
2. Section 42. (1) provides that subject to the Constitution, the national budget shall operationalise the implementation of the National Development Plan.
3. In Zambia, the national development plans have a five-year time horizon of 5 years, while the medium-term expenditure framework has a three-year horizon.

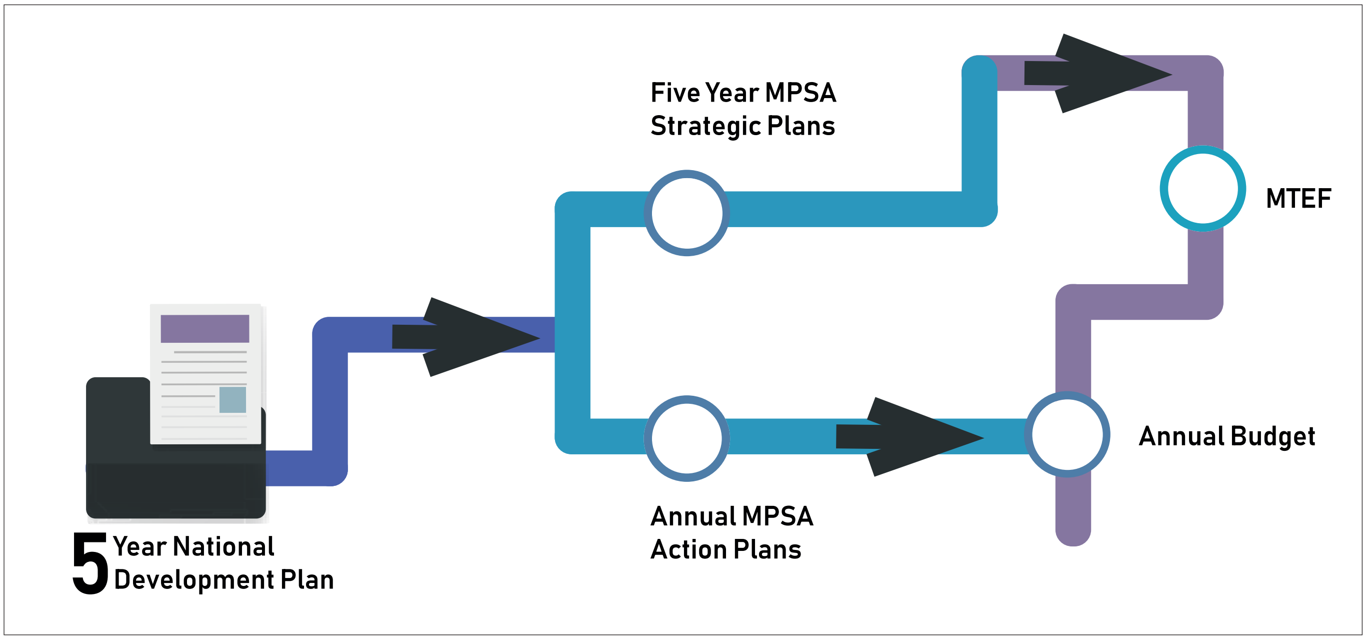
2.2.2 National Planning and Budgeting Framework in Zambia

The national planning and budgeting processes, underpinned by the National Planning and Budgeting Act, No. 1 of 2020, consists of the procedures used to prepare medium-term (five-year) socio-economic and physical (spatial) plans linked to annual Budgets and the MTBP at the national, provincial and district levels.

Zambia uses both top-down and bottom-up approaches to planning. Top-down planning and budgeting processes comprise national and sector-level structures that provide estimates of available resources and offer policy guidance to lower structures of the Government. Bottom-up processes involves district and provincial levels assessing their prevailing circumstances and developing local development plans. Institutions at all levels are mandated to develop strategic and annual work plans that form the basis for their budgets and enable the implementation of national, provincial and district development plans.

Zambia's integrated national planning and budgeting framework is illustrated in the figure below:

Figure 1. The integrated planning and budgeting framework in Zambia



The Zambian Government launched the National Planning and Budgeting Policy in 2014 and enacted the National Planning and Budgeting Act in 2020. These provide the policy and legal basis for strengthening accountability, oversight and participation mechanisms in the national planning and budgeting processes in order to enhance responsiveness, openness and a results-based orientation.

The Executive, through the ministry responsible for finance and national planning, is responsible for leading the preparation, implementation, M&E, and reporting of the annual National Budget, MTBP and NDPs. Depending on the political economy and decisions of the day, the functions of finance and national development planning can be put under one ministry or two separate authorities. For example, there was once a Ministry of Finance and a Ministry of National Development Planning.

The integrated national planning and budgeting process is designed to enhance the linkages between result-oriented plans and the output-based budgets in order to improve development outcomes and the delivery of public goods and services. The process comprises long-term, medium-term and short-term plans. Long-term plans consist of long-term national visions and the integrated development (spatial) of districts. The medium-term, five-year national, provincial and district development plans are developed to operationalise the long-term plans, which are adjusted whenever necessitated by changes in the macro-economic and financial circumstances, and the nation's development priorities. All MPSAs prepare five-year institutional strategic plans from which three-year rolling MTBPs, annual work plans, and output-based budgets (OBBs) are prepared annually.

2.3 Conclusion

National planning may be more effective if it is well-connected to the annual Budget, MTBP, and the provision of public goods, services, works and supplies. The national planning and budgeting framework in Zambia provides the right mechanism for making and implementing decisions; identifying development objectives; and developing strategies, plans, budgets and programmes. Therefore, the national planning and budgeting framework are tailored to facilitate the design, implementation, M&E, and reporting of policies, plans and programmes to mobilise and utilise public financial resources.

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LEGISLATIVE AND REGULATORY FRAMEWORK FOR PFM

CHAPTER THREE

Legislative And Regulatory Framework for PFM

3.0 Introduction

This chapter reviews Zambia's legal and regulatory framework for managing public finances. The objective is to ensure that Members of Parliament and staff of the National Assembly have a clear understanding of the legal and regulatory framework for PFM as they play their respective oversight roles.

It should be emphasised that public resources are exposed to several inherent risks that include misdirection of funds, failure to account for expenditures, wasteful expenditure, theft, fraud, and inaccurate and incomplete financial statements. Collectively, these are called risks to public financial management . Sound PFM systems and practices are an important means of mitigating against such risks

3.1 Review of the Legal and Regulatory Framework

The legal framework for managing public finances is comprehensive. The pieces of legislation that govern PFM operations in Zambia are highlighted in Table 1. below:[4]

Table 1. Legislation governing PFM

Legislation	Purpose
Constitution of Zambia (Amendment) Act No. 2 of 2016, Part XVI	Constitutes overall framework for all PFM-related legislation and sets out guiding principles for PFM in the country, as well as Parliament's mandate in PFM.
The Bank of Zambia Act No. 5 of 2022	Provides for the functions, operations and management of the Bank of Zambia. The functions of the Bank of Zambia are, inter alia, acting as a banker and fiscal agent of the Government.
The Public Debt Management Act No. 15 of 2022.	Primary legislation on debt management authority for the Minister of Finance. It provides for the contraction of loans, establishment of sinking funds, giving of guarantees and indemnities, and the granting of loans by or on behalf of the Government.
Minister of Finance (Incorporation) Act, date Cap. 349	Incorporates the Minister of Finance as the sole corporation by that name and gives the office-holder powers to acquire and hold in that name lands, government securities, shares in any company, securities for money, and real and personal property of every description. It also gives powers to the Minister to execute deeds, enter into agreements binding on himself and his successors in office, and do all other acts necessary or expedient to be done in respect of the above matters or any of them.
National Planning and Budgeting Act, No.1 of 2020	This law provides for an integrated national planning and budgeting process to strengthen accountability, oversight and participation of central and local actors in the national planning and budgeting process. It provides the principles and modalities for formulation, approval, implementation, and monitoring and evaluation (M&E) of long-term and medium-term national, provincial and district development plans and budgets. Further, it provides for the co-ordination of National Development Plans under the National Planning Framework, and for a participatory and decentralised national planning and budgeting process. Finally, it provides for evidence-based decision-making in national planning and budgeting to enhanced budget credibility and national ownership
National Road Fund Act of 2003	This law established the National Road Fund for the construction, maintenance and care of public roads, as well as management of traffic and safety in the road transport sector.

4. The remaining 17 Acts are dormant due to a lack of harmonisation with later legislation or policy frameworks (Ibid.)

Legislation	Purpose
Public Audit Act, No. 29 of 2016 (Yet to be operationalised).	This law makes provisions relating to the duties and powers of the Auditor-General in auditing public institutions.
Public Financial Management Act No. 1 of 2018	Save for the Constitution, this is the main legal instrument for PFM in Zambia. It provides for the control and management of public finances, as well as audit of all public accounts.
Public-Private Partnership (Amendment) Act, No. 22 of 2021, read together with the Public-Private Partnership Act No. 14 of 2009.	It provides for public-private partnerships (PPPs) in the construction and operation of infrastructure facilities and systems, and for the development of general principles of transparency, economy and fairness in the awarding of contracts by public authorities. It also provides the rules governing procurement, contracting and management of PPPs.
Public Procurement Act No. 8 of 2020	This law provides for transparency, accountability and reliability in public procurement, and regulation and control practices relating to public procurement in order to promote integrity, right pricing, fairness and public confidence in the procurement process.
Zambia Revenue Authority (Amendment) Act, No.5 of 2021 Cap. 321	This law gives powers to the Zambia Revenue Authority to collect, on behalf of the Government, taxes that are levied under the different tax laws.
Income Tax Act, Value Added Tax Act, Customs & Excise Act, Property Transfer Act, date	These Laws may be amended to support the collection of taxes in a given financial year.
Appropriation Act, date	The Appropriation Act is passed to authorise the expenditure of the approved Budget.
Supplementary Appropriation Act, date	The Supplementary Appropriation Act is enacted when there is need for additional funds over and above the appropriated revenue or expenditure for each head in a financial year.
Excess Expenditure Appropriation Act, date	The Excess Expenditure Appropriation Act is enacted when there is need for additional funds arising from a presidential warrant.

3.3 Strengthening legal frameworks for PFM

The IMF recommends a comprehensive legal framework for PFM that includes provisions for guiding governments in setting out fiscal strategy targets and objectives in order to ensure that these objectives are reflected in decisions on resource allocation . For a long time, Zambia's legal framework for PFM was somewhat fragmented and outdated and, thus, lacked many key provisions. However, there has been considerable progress towards revision and strengthening of the PFM legal framework as exemplified below.

a. The Public Finance Management Act, No. 1 of 2018 repealed and replaced the Public Finance Act, No. 15 of 2004.

b. The Public Procurement Act, No. 8 of 2020, repealed and replaced the Public Procurement Act, 2008.

c. The National Planning and Budgeting Act, No. 1 of 2020 was enacted.

d. The Public Debt Management Act, No. 15 of 2022, repealed and replaced the Loans and Guarantees (Authorisation) Act of 1969 and the General Loan and Stock Act of 1931; and

e. The Bank of Zambia Act No. 5 of 2022 repealed and replaced the Bank of Zambia Act, 1996.

3.3 Conclusion

This chapter has shown that the legal framework for PFM in Zambia comprises several pieces of legislation. The Government is continuously enacting new legislation and updating other relevant laws to strengthen the PFM System.

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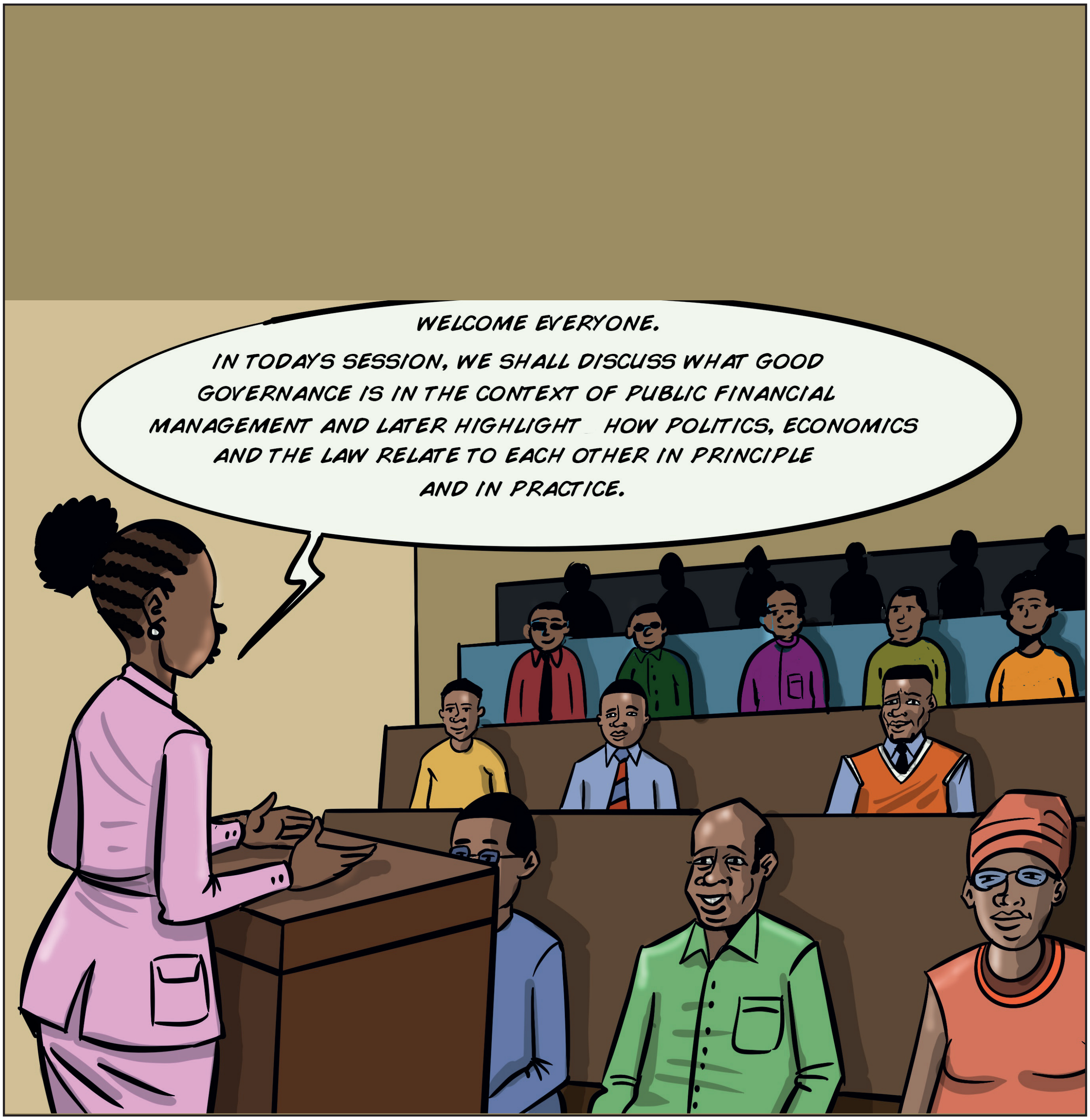
GOOD FINANCIAL GOVERNANCE AND POLITICAL ECONOMY



CHAPTER FOUR

Good Financial Governance And Political Economy

4.0 Introduction

This chapter presents two points of view: firstly, what is meant by good governance in the context of PFM; and secondly, how politics, economics and laws are interlinked in principle and in practice in Zambia (the so-called political economy lens). The chapter, therefore, is intended to assist Members of Parliament and National Assembly staff to understand their roles in scrutinising, approving, and monitoring and evaluating the National Budget and other key instruments of PFM and fiscal policy.

4.1 Good Financial Governance, the Political Economy and the National Assembly

The National Assembly has a responsibility to promote good governance and sound PFM in Zambia. To effectively discharge this responsibility, the National Assembly must always be mindful of the role of the political, economic and legal frameworks (jointly referred to as the political economy) in shaping the country's PFM System. In this regard, two interrelated questions must be answered, namely:

a. What is good governance in the context of PFM in Zambia?

b. How is PFM affected by the interplay of politics, economics and the law, in principle and practice, in Zambia?

The Constitution gives the National Assembly the following responsibilities, among others:

a. Making laws;

b. Overseeing the Executive's design and implementation of, and accountability over public policies and programmes;

c. Scrutinising and approving the National Budget; and

d. Representing the people of Zambia in various choices related to the law, economics and politics, and communities and families at the grassroots levels.

4.2 What is Good Governance?

Good governance is "the manner in which power is exercised in the management of a country's economic and social resources for development" (IFAD, 1999). In Zambia, the term encompasses the sound, transparent, accountable, effective, efficient and equitable planning, mobilisation and utilisation of public financial resources for the benefit of the people of Zambia. Below is an explanation of the key concepts in the definition.

4.2.1 Transparency:

Transparency is openness and accessibility of public institutions, such as the ministries, provinces and spending agencies (MPSAs), including in their sharing of information among themselves, and with the Zambian and international publics. For instance, the ministry responsible for finance and national development is required by law to publish the financial reports for each fiscal year, but is not legally required to publish monthly financial statements or monthly updates on the public debt. So, when the Ministry goes beyond what it is legally required of it in terms of reporting and information sharing, for example, by publishing updates on the public debt, then it can be described as being transparent.

4.2.2 Accountability:

Accountability is the existence of clear lines of responsibility, appropriate levels of delegation of authority and systems for holding people and institutions in substantive or delegated authority accountable for the results of their decisions and actions as well as their omissions.

In Zambia, the main custodian of public resources is the Executive Arm of the Government, and the system for enhancing accountability and preventing wasteful spending and other forms of abuse of public resources is a set of "watchdog" institutions within the Government system. The institutions include the: Anti-Corruption Commission (ACC); Office of the Auditor-General; Drug Enforcement Commission (DEC); the Financial Intelligence Centre (FIC); and the National Assembly

4.2.3 Effectiveness and Efficiency:

Effectiveness in PFM refers to the ability of public institutions to raise and use public resources in such a manner that public goods and services ultimately reach the intended beneficiaries, the citizens. In practice, MPSAs can potentially be ineffective in their management of public finances. Officers in MPSAs have been found culpable of financial misconduct such as misappropriating public resources and misapplication, that is, diverting funds from their planned and budgeted uses to other uses. Efficiency, on the other hand, is the ability of public institutions to keep wastage at the absolute minimum in the utilisation of public resources. In other words, it is the practice of 'doing more with fewer resources'.

The National Assembly must exercise oversight over the Executive and ensure that the MPSAs use public resources prudently and efficiently to reduce wastage and maximise the benefits.

4.2.4 Equity:

In the context of PFM, equity refers to the fairness with which public resources are distributed for the equitable benefit of all citizens. For example, K4 billion was allocated to the Constituency Development Fund (CDF) in the 2022 National Budget. That amount was planned to be shared equally among all constituencies so each of the 156 constituencies would receive K24.8 million. Some stakeholders contended that although there was equality in the distribution of resources, there was no equity in that more money should have been allocated to rural constituencies, which have more developmental needs than those in urban areas. Conversely, some stakeholders contended that more money should have been allocated to the more densely populated urban constituencies.

The National Assembly has the important role of overseeing the Executive and, through the oversight function, promoting prudent PFM and good governance. In particular, the mandates of making laws; exercising oversight over the Executive, including over the management of public resources, programmes and policies; and examining and approving the National Budget are critical building blocks for achieving overall good financial governance. An understanding of these building blocks and how public institutions behave within the political economy can enable Members of Parliament and staff of the National Assembly to effectively contribute to the enhancement of transparency, accountability, effectiveness, efficiency and equity in the mobilisation, allocation and utilisation of public resources. Parliamentary oversight is a key cornerstone for public financial management and good governance.

4.3 Role of the Political Economy in PFM

In order for the National Assembly to exercise its oversight function in a meaningful way, Members of Parliament and staff ought to understand the interrelationships or interplay among politics, economics and the legal framework among and between public institutions. Public institutions need to be aware of the influence of political decisions on the implementation of social, economic and public administration policies, strategies, plans and programmes. Therefore, as public institutions pursue prudent financial management and good governance, the conduct of officials in those institutions and, the overall institutional behaviour and character may be influenced, among other things, by the political economy.

The interplay among the law, economics and politics is depicted in Figure 2. An awareness of the political economy helps Members of Parliament to understand the behaviours of different public institutions as they navigate the legal, political and economic environments, and how they ultimately formulate and implement public policies and programmes for prudent PFM and good governance.

Figure 2. Political economy of public financial governance

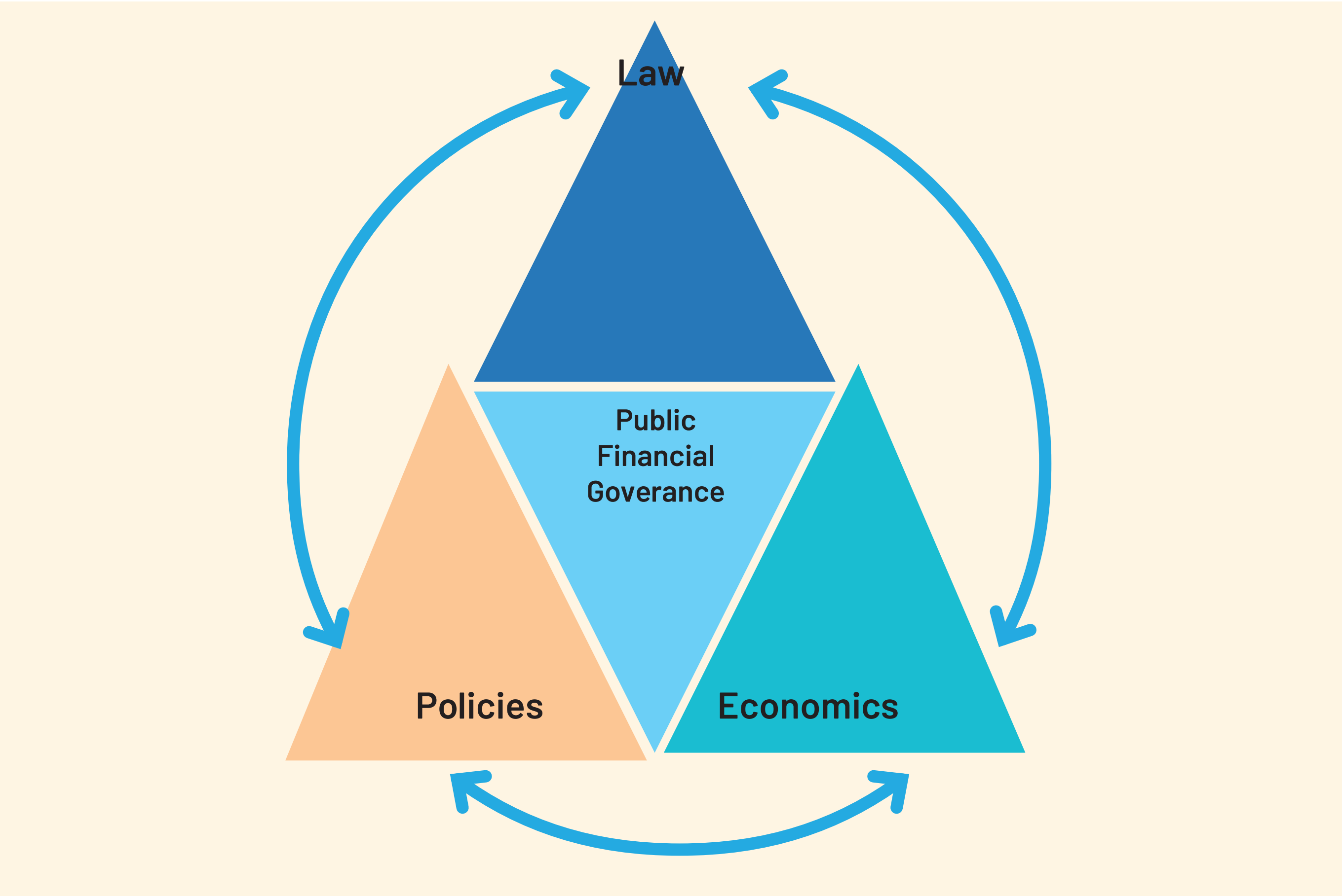


Figure 2. shows that the National Assembly enacts the laws that govern the country's political and economic activities. In doing so, the National Assembly considers economic issues, such as those around PFM. For example, it considers the availability of financial resources, the means for delivering the intent of the law and institutional capacity such as human resource, infrastructure and technological. The laws are crafted to achieve the right checks and balances between political and economic interests, particularly given that sometimes, the interests of politicians and those of economic agents diverge considerably. Similarly, the political discourse evolves with, and is shaped by, the legal environment and economic realities. Politicians, in making choices or decisions, individually and collectively, must abide by the law and pay attention to such things as the cost of living and the state of national resources, including the public debt, on the economic side.

Finally, economic agents in both the public and private sectors make decisions about how to participate in the economy and in politics based on the legal and political environment. For instance, if the legal environment on security of land tenure is weak and the State can grab land from private citizens without due cause and due process of the law, then, private citizens, including investors, will be discouraged from participating in economic activities that involve acquiring and owning land.

4.4 The Public Finance System in Principle

As public institutions strive for prudent resource management and good governance, they always face the law, politics and economic factors. The National Assembly must, therefore, continuously scrutinise the PFM and governance systems, and encourage their improvement based on a firm understanding of the PFM system, which is responsible for the mobilisation and utilisation of public resources, and accounting for them. In principle, the PFM system comprises three core elements: planning processes, resource mobilisation functions and public expenditure functions, as well as two critical support elements, namely a resource base (or the economy) and support systems.

The public finance system is underpinned by the legislative and regulatory, and planning and budgeting frameworks. These frameworks are discussed in detail in the subsequent chapters in this Handbook.

4.5 Conclusion

The oversight and influence of the National Assembly over the Executive is a crucial check and balance for sound public financial management and good governance. It is a key ingredient for social, economic and political development, as well as the rational evolution of the law. Thus, Members of Parliament and staff should become fully aware of their important role in ensuring that the National Assembly, as an institution, exerts its due influence over the Executive and promote good financial governance, bearing in mind Zambia's political economy. They should also be aware of the possible complementarities and tensions or conflicts between group interests and individual self-interests within law-making, policy-making and decision-making.

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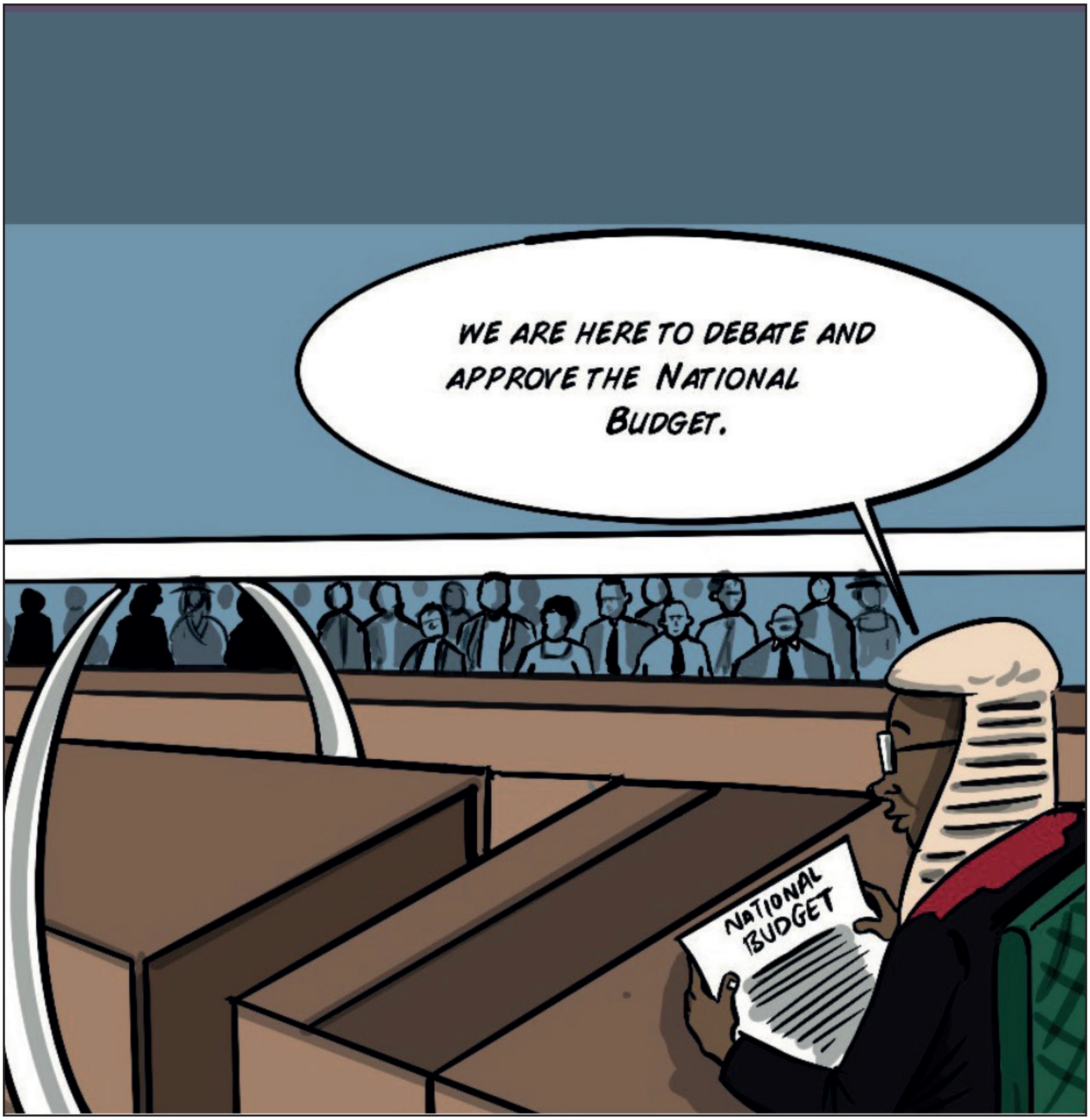
THE ROLE OF THE NATIONAL ASSEMBLY IN NATIONAL PLANNING AND BUDGETING



CHAPTER FIVE

The Role of The National Assembly In National Planning and Budgeting

5.1 Introduction

While most legislatures have formal powers to hold the executives accountable for actions and policies, including the preparation and implementation of annual budgets, there is considerable variation in the way parliaments exercise their 'powers of the purse'. The challenge is for parliaments to use their financial oversight mandates to ensure that the needs of the citizens, including the poor and other vulnerable groups, are not only recognised, but also attended to through the implementation of well-designed government programmes and provision of services while ensuring that Executive Arm of Government adheres to prudent PFM and fiscal policy targets. This chapter explains Parliament's role in the Budget cycle, including the early stages of planning and budget preparation; budget scrutiny and approval; monitoring of budget implementation; and examination of end-of-year financial statements and reports of the Auditor-General

5.1 Role of the National Assembly in National Planning and Budgeting

The National Assembly plays a key role in the national planning and budgeting process by approving NDPs and annual budgets. These critical functions are the basis upon which the Executive rolls out development plans and spends public funds in a given financial year. Without the approval of annual budgets by the National Assembly, the Government can neither incur expenditure nor put in place measures to raise the required revenue.

The role of the National Assembly in budgeting is mainly provided for in Part XVI of the Constitution of Zambia as amended in 2016, and reinforced by Article 63 of the Constitution of Zambia[5]. Further, the National Planning and Budgeting Act, No. 1 of 2020, Part III, Section 17(3), states that, ***"The National Assembly shall approve a Long-Term Development Plan (Vision) by December of the year preceding the commencement of its implementation." Further, Section 23(1) of the Act provides that, "the Minister shall lay before the National Assembly the National Development Plan for approval."*** The legal provisions above consolidate the role of the National Assembly in the national planning and budgeting processes

5.1.1 Role of the National Assembly in National Planning

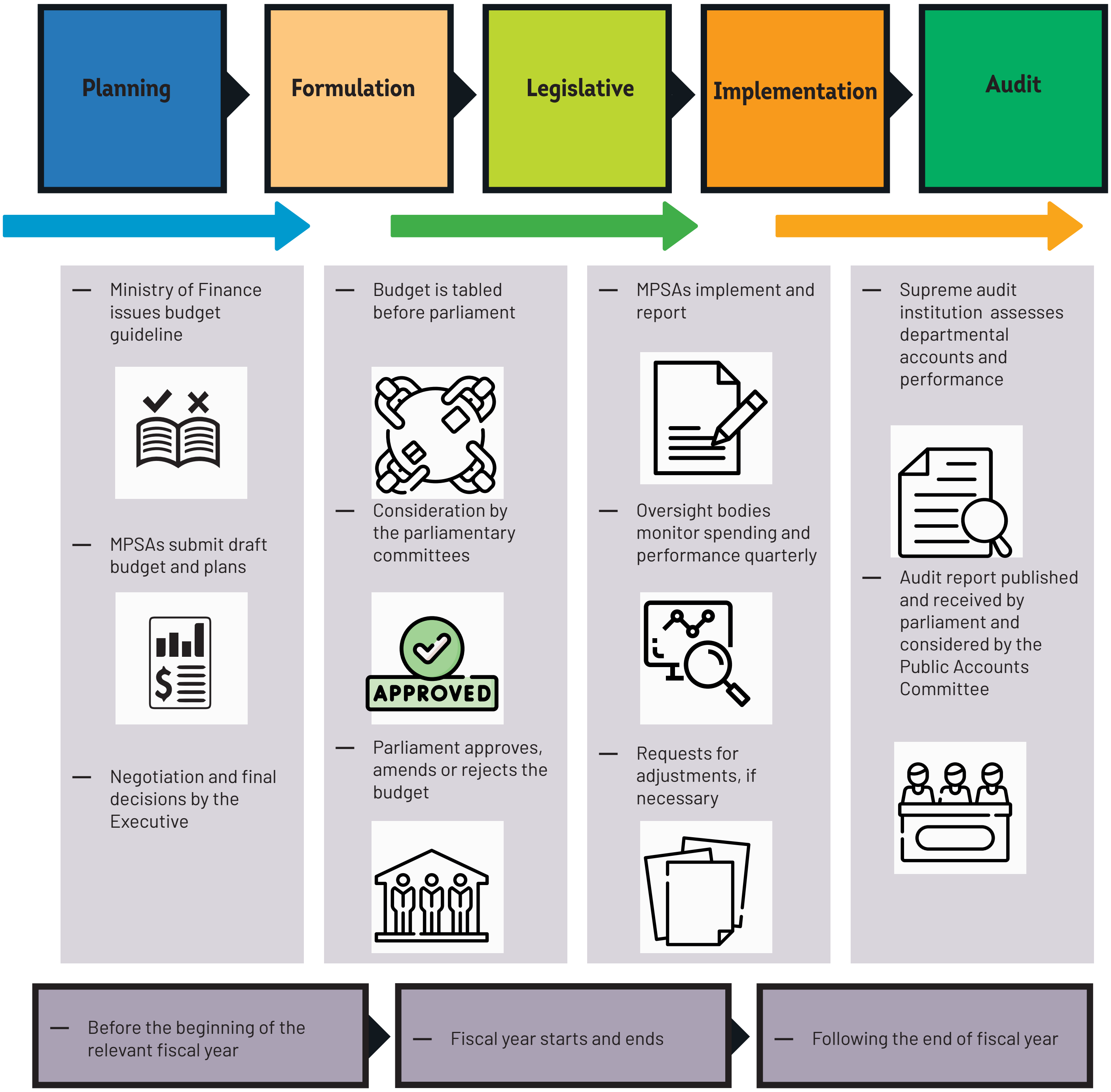
The role of the National Assembly in national planning is important for people-centred development, since the Members of Parliament represent the aspirations of the people who elected them. Therefore, the National Assembly is responsible for championing an inclusive planning framework that considers the desires of constituents at the local and national levels. The National Planning and Budgeting Act, No. 1 of 2020 provides for NDPs to be approved by the National Assembly. This function was first executed on the Eighth National Development Plan (8NDP), 2022-2026. This milestone entrenched national planning in the jurisdiction of the National Assembly, thereby promoting representative, inclusive and participatory planning processes.

5. Article 63. (1) Parliament shall enact legislation through Bills passed by the National Assembly and assented to by the President. (2) The National Assembly shall oversee the performance of executive functions by— (a) ensuring equity in the distribution of national resources amongst the people of Zambia; (b) appropriating funds for expenditure by State organs, State institutions, provincial administration, local authorities and other bodies; (c) scrutinising public expenditure, including defence, constitutional and special expenditure; (d) approving public debt before it is contracted; and (e) approving international agreements and treaties before these are acceded to or ratified.

5.1.2 The Budget Cycle and the Role of the National Assembly.

The National Planning and Budgeting Act, No. 1 of 2020, provides for the submission by the Minister responsible for finance to an appropriate Committee of the National Assembly the Green Paper on the Medium-Term Budget Plan (MTBP) for consultation by the second Friday of July. Further, the Standing Orders of the National Assembly of Zambia provide that the appropriate Committee shall, within ten working days, submit comments on the Green Paper on the MTBP to the Minister. Further, under Sections 43 to 49, the Act provides the entire framework for the Executive's responsibility to table the Budget to the National Assembly, specifically covering preparation, execution and performance reporting, as illustrated in Figures 3. below.

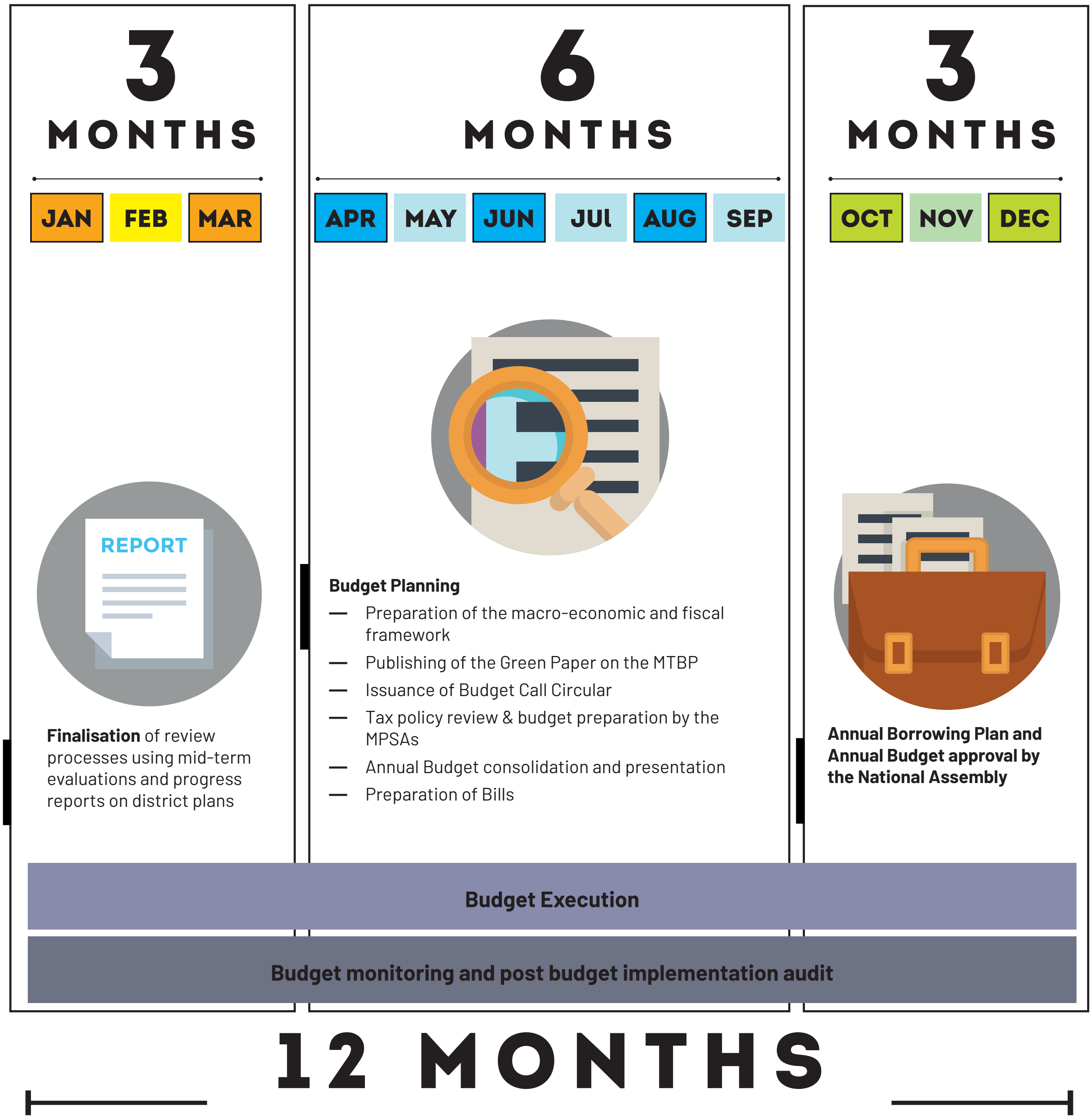
Figure 3: Parliament's Role in the Planning and Budgeting Process



Source: PBO

Zambia's planning and budgeting process is a year-round affair running from January through to December, as demonstrated in the diagram below.

Figure 4. Budget Calendar



Source: PBO

During the budget preparation stage, the Ministry of Finance and National Planning undertakes consultations through the Green Paper on the MTBP from various stakeholders. The National Assembly is also consulted through an appropriate Committee. The MTBP is a three-year projection of the Government's resources and their allocation across heads of expenditure and functions to finance operations and development programmes in line with a particular NDP. Consultations on the MTBP are concluded in August to enable the annual Budget Estimates to be finalised in September.

Although the law provides for presentation of the Green Paper on the MTBP to an appropriate Committee, this is for purposes of consultation only which is not consistent with what is considered as good practice. In some jurisdictions, Parliament approves the equivalent of the MTBP and this is increasingly being understood as an important avenue for enhancing the role of Parliament at the formulation stage of the budgeting process.
Given the fact that Zambia follows both the bottom-up and top-down approaches in budgeting, the Ministry of Finance and National Planning issues the Budget Call Circular to the MPSAs, asking them to prioritise their allocations. The Budget Call Circular includes the following:

a. The key policies to be observed, the parameters to be utilised and the procedures to be followed in the preparation of the estimates of revenue and expenditure at the national, provincial, district and local levels;
b. Indicative resource ceilings and expenditure allocations; and
c. The deadline for the submission of the budget framework paper and the estimates of revenue and expenditure.

In line with Section 7(2)(i) of the National Planning and Budgeting Act, No. 1 of 2020, all Members of Parliament are members of the Provincial Development Co-ordinating Committee (PDCC) in the province where their constituencies are found. The functions of the PDCC include co-ordinating the formulation, implementation, and M&E of provincial plans and budgets in a participatory, transparent and accountable manner that responds to the needs of the people; and the harmonisation of the provincial development plan and budget with the long-term and medium-term development plans. Therefore, Members of Parliament are directly involved in the formulation and harmonisation of plans and budgets at provincial level. The PDCC reports to the National Development Co-ordinating Committee (NDCC), which is the structure responsible for advising Cabinet on NDPs and budgets.

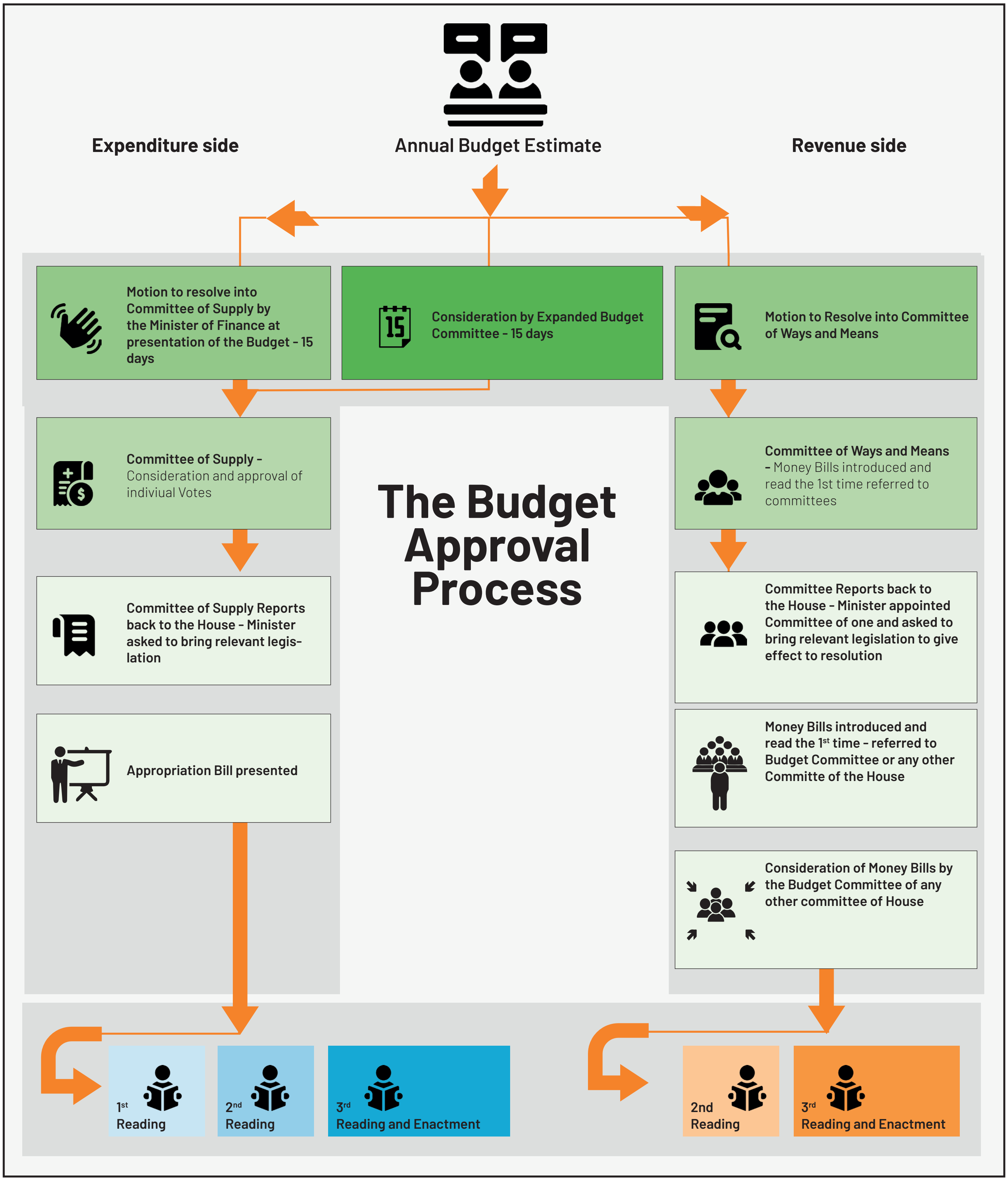
For Members of Parliament to effectively interrogate the National Budget and effectively execute their Budget oversight role, they need to be assisted in understanding the often complex and technical issues and processes around budgeting. The Parliamentary Budget Office (PBO), a non-partisan source of budget information, was established in the National Assembly to provide that assistance.

5.1.3 Budget Approval

After consultations, the Executive consolidates the inputs into the proposed national budget. Section 41 of the National Planning and Budgeting Act provides for the Minister responsible for finance to, on approval by the Cabinet, prepare a national budget policy statement for the next financial year. The policy statement is a motion urging the House to resolve into Committee of Supply in order to approve the estimates of expenditure.

Approving the Budget Estimates is one of the core functions of the National Assembly. While the National Assembly cannot amend the total amount of the estimates of revenue and expenditure in the proposed Budget, it is empowered by Article 202(4) of the Constitution of Zambia to vary the estimates within the Budget. This means that the National Assembly has the power to alter the Executive's priorities and programmes and re-allocate funds across or within sector budgets

Figure 5: Legislative Budget Approval Process



Source: National Assembly

The approval of the Budget in the National Assembly, as shown in Figure 5., can be broken down into the following:

a. Presentation of the National Budget Policy Statement by the Minister of Finance;

b. Referral of the estimates of revenue and expenditure to the Expanded Planning and Budgeting Committee

for scrutiny;

c. General policy debate on the National Budget Policy Statement on the Floor of the House as the Expanded Planning and Budgeting Committee considers the estimates of revenue and expenditure;

d. The Expanded Planning and Budgeting Committee presents its report on the Estimates of Revenue and Expenditure to the House;

e. The Minister of Finance winds up debate on the Motion to resolve into the Committee of Supply;

f. Adoption of the National Budget Policy Statement (Motion to resolve into Committee of Supply); and

g. Heads of expenditure including programmes to be implemented are considered and approved by the Committee of Supply;

h. Money Bills originating in the Committee of Ways and Means approved; and

i. The Appropriation Bill passed by the House.

The Expanded Planning and Budgeting Committee to which the Budget Estimates are referred to upon presentation comprises the Planning and Budgeting Committee and chairpersons of General-Purposes and Portfolio Committees. It is chaired by the Chairperson of the Planning and Budgeting Committee. The Committee has up to fifteen sitting days to scrutinise the Budget Estimates as provided for in the Standing Orders.

The Expanded Planning and Budgeting Committee invites various stakeholders to assist it in scrutinising the Budget Estimates. This process is meant to ensure broad consultations on the Budget with key stakeholders and promote citizens' participation in the legislative process. The report of the Committee is not adopted, but merely tabled to inform the debate by Members of on the budget on the Floor of the House. Standing Order 58(2) provides for the Committee of Supply to take into account the report of the Expanded Planning and Budgeting Committee in considering the Estimates.

Resolution of the House into the Committee of Supply signals the beginning of the consideration of individual Heads of Expenditure. A policy statement by the Vice President or the responsible Minister precedes the approval of each Head. The policy statement is a justification for the appropriation of funds to each Head of Expenditure.

On a date determined by the Speaker, the Minister responsible for Finance moves another Motion for the House to resolve into the Committee of Ways and Means to consider the raising of revenue. According to the Standing Orders, Money Bills are to originate in the Committee of Ways and Means. Article 65 of the Constitution provides that a Money Bill can only be introduced in the National Assembly by a minister. Article 65 further defines a Money Bill as a Bill that provides for, among other matters:

a. The imposition, repeal, remission, alteration or regulation of taxes;

b. The imposition of charges on the Consolidated Fund or any other public fund; or the variation or repeal of any of those charges;

c. The appropriation, receipt, custody, investment, issue or audit of accounts of public monies;

d. The granting of public money to a person or authority or the variation or revocation of such grant; and

e. The raising or guaranteeing of a loan or the repayment of it.

All Money Bills are referred to the Planning and Budgeting Committee or any other relevant Committee. The Committee to which a Money Bill is referred is required to present a report on its findings on the Bill to the House within a period determined by the Speaker. The Speaker may extend the initial period if the Committee requires more time to conclude its business.

Like the reports on proposed Budgets, reports on Money Bills are also not adopted by the House, but are merely sources of information for Members to use in their debates.

Once the Estimates of Expenditure have been approved in the Committee of Supply and reported to the House, and the Money Bills have been passed, the Minister responsible for Finance presents the Appropriation Bill. The Bill is a summary of the amounts voted for each Head of expenditure and programmes of the Budget. The

enactment of the Appropriation Bill authorises expenditure and withdrawal from the Consolidated Fund.

5.1.4 Budget Implementation

Budget execution follows the enactment of the Appropriation Act. The Execution of the budget is a set of processes through which governments deliver on the promises and proposals made in the national budgets. Section 5 of the Public Finance Management Act No.1 of 2018 empowers the Treasury to receive, keep, receipt manage and disburse public funds; manage the national budget process and manage public debt, among other things. The Treasury is therefore critical as it ensures that funds are released to various MPSAs. The role of the National Assembly at this stage is to monitor the implementation of the Budget through a number of oversight mechanisms. The mechanisms include budget performance reviews by various Parliamentary Committees, and questions to the Vice President or a minister for a written or oral answer. In addition, Section 49 of the National Planning and Budgeting Act, No. 1 of 2020 compels the Minister responsible for finance to lay before the National Assembly a mid-year budget performance report. In some jurisdictions, PFM laws require budget performance reports to be produced on a quarterly basis.

During the implementation of the Budget, the National Assembly may approve supplementary expenditure if the funds appropriated in Budget are insufficient to meet expenditure. Article 203(2) of the Constitution provides that, "the Minister responsible for finance shall, where the amount appropriated for a financial year is insufficient to meet expenditure in that financial year, lay before the National Assembly for approval a supplementary estimate for expenditure."

The National Assembly may also approve excess expenditure through warrants issued by the President. In this regard, Article 203(4) of the Constitution provides that:

"Where there is an urgent need to incur expenditure for a purpose that has not been appropriated under the Appropriation Act for that financial year and it would not be in the public interest to delay the appropriation of the expenditure until a supplementary estimate is approved by the National Assembly, in accordance with clauses (2) and (3), the President may, subject to Article 204, issue a warrant authorising the expenditure and withdrawal from the Consolidated Fund."

5.1.4.1 Management of Extra-Budgetary Funds

Extrabudgetary Funds (EBFs) are government revenues and expenditures managed outside the normal budgetary process, often organized as a separate account or self-balancing entity and intended for specific activities or agencies. EBFs can also be revenues raised outside the budget framework by administrative units or off-budget payments by authorized organizations. These funds may have their own accounting and reporting requirements. Examples include revenues and expenditures by statutory corporations, state-owned enterprises, and local authorities.

While EBFs provide flexibility and autonomy, they can complicate budget management and transparency. Thus, it is crucial to balance their legitimate autonomy with the potential risks associated with fragmented public fund management. To address this, some countries have included autonomous government entities in the central TSA structure or established TSAs at each subnational level.

5.1.5 Post-Budget Implementation Scrutiny

The final stage in the budgeting process is the external audit function performed by the Office of the Auditor-General, who reports to the National Assembly. The Constitution requires the production of two post budget implementation reports.

Firstly, Article 211 of the Constitution provides that the Minister responsible for finance shall, within three months after the end of each financial year, prepare and submit to the Auditor-General the Financial Report of the Republic in respect of the preceding financial year. Information in the Financial Report include the following:

a. Revenue received by the Republic during that financial year;
b. The expenditure of the Republic during that financial year;
c. Gifts, donations and aid-in-kind received on behalf of the Republic in that financial year, their value and how they were disposed of;
d. Debt repayments;
e. Payments made in that financial year for purposes other than expenditure; and
f. The financial position of the Republic at the end of that financial year.

Secondly, Article 212 of the Constitution provides that "the Auditor-General shall, not later than nine months after the end of the financial year, submit an audit report to the President and the National Assembly on the accounts of the Republic audited in respect of the preceding financial year." Further, the Public Audit Act, 2016, although not operationalised when the Handbook went to press, spells out the Auditor-General's roles, responsibilities, reporting obligations and reporting channels. The Act gives the Auditor-General authority to follow public funds wherever they are spent and examine whether government financial activities were conducted in compliance with the laws and all other rules and procedures.

In the National Assembly, the practice has been that the Public Accounts Committee (PAC) only scrutinises the Auditor-General's Report. However, Standing Order 192(3) provides that the Public Accounts Committee shall examine the accounts showing the appropriation of sums granted by the Assembly to meet the public expenditure, the Report of the Auditor General on the Accounts and such other Accounts. The Secretary to the Treasury is responsible for implementing the recommendations of the Public Accounts Committee in line with Section 7(1) of the Public Finance Management Act No. 1 of 2018.

In addition to carrying out financial audits, the Office of the Auditor-General also conducts compliance audits and performance or value-for-money audits. While the Financial Audits are considered by the Public Accounts Committee, the performance audits on the other hand are referred to appropriate Committees for consideration. These Committees prepare reports which are presented to the House for adoption onward transmission to the Executive for action.

5.2 Strengthening the Role of the National Assembly in the Budgeting Process

Experiences worldwide suggest that Parliamentarians can contribute to good financial governance by extending their oversight role over the whole budgeting cycle. The National Assembly approves the Budget and oversees Government spending. The ex-post Budget review is used to hold the Executive accountable for its usage of public funds. This task is accomplished through the work of Parliamentary Committees and of individual Members. It is important to strengthen the role of the National Assembly in the budgeting cycle because that creates greater public buy-in in economic policies and spending priorities, and enhances Members' insights into budgetary processes and accountability measures. This, in turn, strengthens Parliament's oversight performance and leads

to greater transparency and accountability in the utilisation of public funds by the Government. International experiences show that enhancing the role of the National Assembly in the budgeting cycle requires enhanced technical support to Members by qualified and motivated staff.

The establishment of departments dedicated to budget analysis and research on the administrative structure of the National Assembly has proven to be an effective way of providing technical support to Members on budgetary issues. The Parliamentary Budget Office in the National Assembly of Zambia was formally established in 2017, but had worked on an interim basis since 2014.

5.3 Conclusion

The National Assembly plays an important role in all the stages of the planning and budgeting processes. For any legislature to effectively play its oversight role in the planning and budgeting framework, Members of Parliament need to be supported by a qualified and positively motivated workforce in understanding the complex issues attendant to the two processes. That support may be provided by Parliamentary Budget Offices, which must have adequate and qualified staff; credible, impartial and positively motivated professionals for it to continue to provide that support effectively.

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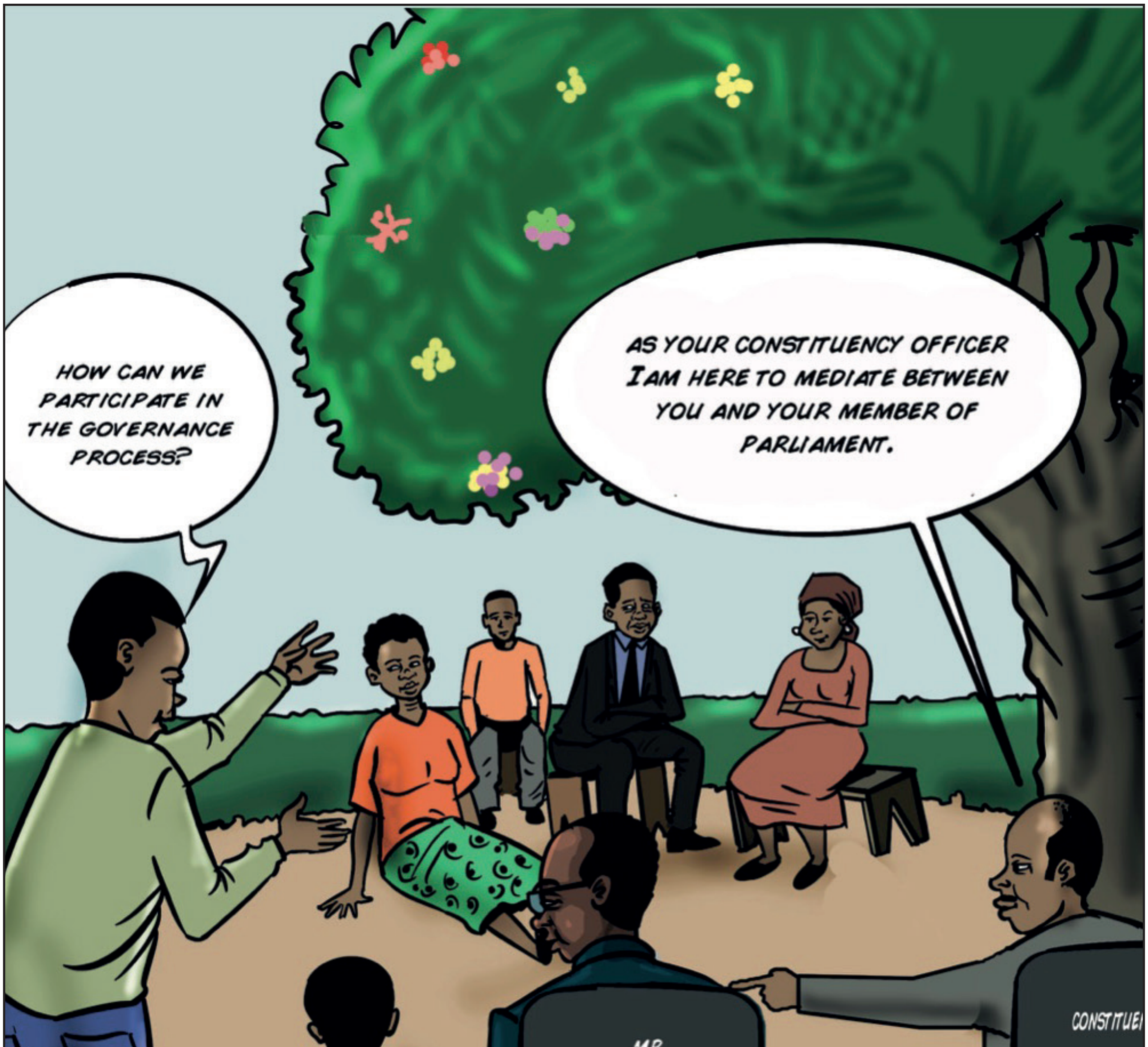
CITIZENS' PARTICIPATION IN THE PLANNING AND BUDGETING PROCESS



CHAPTER SIX

Citizens' Participation in the Planning and Budgeting Process

6.1 Introduction

Following the adoption of the National Planning and Budgeting Policy of 2014 and the enactment of the Constitution of Zambia (Amendment) Act No. 2 of 2016, the active involvement of citizens in public planning and budgeting processes has become a right rather than a privilege. The National Planning and Budgeting Policy, 2014, has identified as one of its objectives, the facilitation of more participatory and decentralised planning and budgeting processes through the strengthening of the structures for participation of State and non-State actors. Further, Article 89(1) of the Constitution requires the National Assembly to facilitate public involvement in the legislative process whilst Article 205(d) provides for "public participation, at all levels of Government, in the formulation of financing frameworks, development plans and preparation of annual budgets."

Citizens' participation is defined as the active involvement of citizens in governmental decision-making and planning processes. In budgetary and planning processes, citizen participation has been a growing trend for a long time in democracies worldwide. The participation can take many forms[6] . Further, it can be direct, such as when informed citizens meet and debate fiscal priorities and forward their resolutions and plans to decision-makers, or indirect, such as when citizens elect Members of Parliament to represent their interests in the National Assembly. Protesting, lobbying and picketing are some of the different forms of participation. This chapter discusses the role of citizens in the planning and budgeting process at the community and constituency levels

6.1 Role of the Communities and Purpose of Community Participation

Public participation' can be summarised as the involvement of the public in decision-making on issues that affect their lives. The concept of the 'public' means to all community members irrespective of their age, sex, political affiliation, ethnicity, religious beliefs or any physical disability they may have.

The most basic form of public participation in a representative democracy is voting for one's preferred representative. However, general elections take place every five years[7] while effective public participation requires sustained involvement of the public in the Government's decision-making processes in between elections. The public must be involved in making all decisions that affect them. The most common example of participatory planning is that involving development projects funded using the Constituency Development Fund (CDF) to uplift the living standards of a specific community. However, the public can also be involved in activities with much broader scope such as district budgeting processes and the development of national plans and policies. Further, participation does not have to be restricted to the planning stage, but it can also be extended to the implementation, and M&E stages.

Evidence from World Bank-supported case studies on citizens' participation in planning and budgeting has shown that:

a. Citizen participation is relevant at each stage of the budgeting process, from resource allocation through Budget execution to Budget evaluation;

b. The attitude of a government is a major predictor of whether meaningful participation will take place;

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6. Brautigam D. (2004). The People's Budget? Politics, Participation and Pro-poor Policy, Citizen Participation: Legitimizing Performance Measurement as a Decision Tool. Government Finance Review, GFOA, April 2002.Development Policy Review, 2004, 22 (6): 653-668.
7. From Articles 63 and 105 of the Constitution of Zambia (Amendment) Act No. 2 of 2016

c. The success of the participation depends in part on the administrative capacity to disseminate information and hold meetings; and

d. Media plays a key role in publicising of Budget analyses, report cards, survey results and following up on issues raised by non-governmental organisations (NGOs).

Participation is a central tenet of democracy and, increasingly, citizen participation in economic policy is advocated as a way of making government spending more pro-poor. People's budgets, alternative budgets, women's budgets and participatory budgeting have raised hopes and expectations that greater participation by ordinary citizens, NGOs and other civil society organisations (CSOs) in spending and revenue generation will lead to better outcomes for the poor. Community participation can have benefits like increased access to information and greater transparency, which may, in turn, cast a blinding spotlight on governments that are not pro-poor

Table 2. Selected Examples of Public Participation in Budgeting

COUNTRY	LEVEL OF PARTICIPATION
Brazil 	Participatory Budgeting (BP), is a mechanism that allows citizens and professionals to participate directly in the allocation of municipal, regional, or even national public budgets, began in 1987 in the Brazilian city of Porto Alegre. After the thematic meetings in Brazil, an elected Council of Participatory Budgeting presents the findings to the Municipal Council. Though not officially part of the law- the process in Brazil still needs to be institutionalised.
South Africa 	The participation of Finance and Public Accounts committees in the budget process has improved a great deal. This is reflected in the growing openness, quantity and depth of budget hearings, as well as their involvement in the development of budget legislation. ▪ Civil society is also participating more actively in the budget process, with increasing numbers of budget-related submissions are being made to portfolio committees. Citizens have also engaged in fiscal debates via a number of public campaigns. ▪ The nature, quality and availability of budget information in South Africa generally create a sound basis for the legislatures and civil society to play a significant role in the budget process. However, they have not yet made optimal use of available information and opportunities to influence decision-making on budget issues. ▪ The meaningful participation of the legislatures is partially impaired by the way the budget process is organized and scheduled. There is a need to revise the way the legislative phase is conducted and to devolve expenditure oversight more effectively to committees.
Uganda 	Civil society participation in the budget process is most firmly established during the budget drafting phase. While some civil society organizations have questioned whether their input on budget issues is given due consideration by government, most role-players acknowledge that progress is being made towards a more participative budget system. ▪ Existing mechanisms for public participation in the budget include sector working groups, budget workshops at local government level, the preparation of budget framework papers, as well as public expenditure review and consultative group meetings. ▪ Civil society can make better use of available opportunities by strengthening its own capacity to engage in pre-budget lobbying, as well as budget monitoring and advocacy. ▪ The media play an increasingly substantial role by disseminating information on budget issues and providing a forum for budget debate.
Kenya 	Kenya's new Constitution (2010) and supportive legal framework contain multiple provisions requiring both national government and counties to make information publicly available and consult with citizens in planning and budgeting. The devolution laws require that there be participation in integrated development planning and throughout the four stages of the budget cycle: formulation, approval, implementation and oversight. The County Government Act 2012, Public Finance Management Act 2012 and Urban Areas and Cities Act 2011 all provide strong social accountability provisions that counties are mandated to implement.

Source: World Bank (2015), FOA (2022) and IMF (2022)

6.2 Platforms for Participation

Constituency Offices (COs) have been established in all the constituencies of the country as points of contact between Members of Parliament and their constituents. Among other functions, COs produce M&E reports on constituency projects, which may form the basis for questions to Ministers raised by Members in Parliament.

The Fiscal Openness Accelerator (FOA) project, launched in 2020 by the Global Initiative for Fiscal Transparency (GIFT) and the International Budget Partnership (IBP), uses a collaborative approach to advance public participation in the budget cycle of five African countries—Benin, Liberia, Nigeria, Senegal and South Africa. The main goal is to enhance the openness and responsiveness of the national budget process. Some early successes are as follows:

- Benin's Ministry of Economy and Finance launched the BousProb mobile application in March 2022. This tool publishes key information on the budget and the budget cycle. Responding to feedback received from civil society, the ministry was able to add new features to the tool, thus promoting public engagement in each phase of the budget process.
- In South Africa, members of the Imali Yethu coalition of civil society organizations worked with the National Treasury to design pre-budget consultations, disseminate information to the public, and encourage more sectors to participate in the budget process. They organized a public consultation event in September 2021 that synthesized all recommendations and inputs received from the civil society participants.

Advisory group members in Liberia, Nigeria, and Senegal worked in close collaboration to co-create detailed action plans for the development and implementation of pre-budget consultations in 2022.

6.3 Approaches to Eliciting Community Participation

Public engagement allows real dialogue to take place between the Government, the public and community organisations for purposes of collectively working to find solutions to complex problems[8]. Engagement activities also create a sense of community ownership of, and pride in, development planning.

There is no universally accepted method of public participation[9]. Different communities participate and facilitate participation differently. However, one commonly used method is public dialogue, in which local councillors and Members of Parliament create fora for interaction with community members. This can be done at any stage of the planning and budgeting processes, and during the implementation and evaluation of community projects or other activities that affect people's lives. This method is an effective way of involving communities because it offers them an opportunity to interact and voice their concerns in a structured format. Dialogue platforms must be used proactively throughout the Budget cycle, not only during the early phases. Structured and systematic dialogue between elected leaders and the communities is equally important in the monitoring of Budget implementation and evaluation of development outcomes.

6.4 Timing and Approaches to Community Participation

Timing and approaches to community participation are related because approaches that work in one phase of the planning, budgeting and performance management process may not be effective in other phases. There are various typologies of participation, two of which are the functional and consultative typologies. For example, a community goal-setting session is very appropriate for assisting a government to establish priorities in developing a strategic plan or in the early stages of the budgeting process.

Identifying community preferences and satisfaction levels or testing ideas and approaches should precede decision-making. Governments may solicit information for general purposes, such as strategic planning, or targeted information, such as input into specific projects, plans or initiatives. Unless there is a compelling reason to target only certain segments, public involvement approaches should encourage all citizens to participate. In addition, governments should make involvement opportunities accessible to all citizens and hold meetings at various times to facilitate maximum participation. Common methods for soliciting information include surveys, either in person or via mail, phone or on the Internet; focus group discussions ; interviews; public meetings, such as public hearings; and interactive priority setting tools.

8. Lenihan, Don (2012), Rescuing Policy – the case for public engagement, Public Policy Forum, 2012
9. Davis T. S. (2002), Brownfields, A Comprehensive Guide to Redeveloping, American Bar Association, 2002

6.5 Providing Information to the Community

Providing information to citizens is necessary at all stages of the planning and budgeting processes, and might include the use of newsletters; public notices in community media; community hearings; public reports, such as budgets-in-brief, annual financial reports and performance reports; websites; individual or group emails; phone calls; and face-to-face contact.

The information provided by the Government must include feedback. To this end, the Government should systematically collect, maintain, monitor and analyse information gained from public involvement activities, maintain contact information on individuals and groups that wish to be kept informed, and use multiple communication mechanisms to notify those involved or interested in given processes of the decisions made based on the public involvement processes and opportunities for further participation. Most importantly, governments should explain to the public the impacts of any public involvement on plans, budgets and performance.

6.6 Citizen Involvement in the Project Cycle

A project cycle has three basic stages,[10] namely preparation, implementation and evaluation. For any project to succeed, Members of Parliament, councillors, members of the public and community groups must be involved in all its stages.

6.6.1 Preparation Phase

It is the responsibility and right of every Zambian to ensure that public financial resources are prudently allocated and spent. To do so effectively, citizens must be informed; participate in project meetings in their localities and constituencies; support the implementation and monitoring of projects; and reporting any cases of abuse. As a people's representative, a Member of Parliament has a vital role to play in terms of planning, budgeting, and project identification, implementation and M&E. The role can be summarised into two aspects, namely participation and facilitation. Members can participate in or facilitate consultative meetings on planning; budgeting; and project identification, implementation and evaluation in their constituencies. For such activities, Members must hold regular meetings in their constituencies with Ward Councillors.

Ward Development Committees (WDCs) are sub-district local government structures established to facilitate community participation in decision-making and development planning processes at the ward level. They are the linkage between the district and the local communities, and are involved in resource mobilisation and prioritisation of projects for inclusion in district development plans.

6.6.2 Implementation Phase

Implementation is the stage at which all the planned activities of a project or programme are undertaken. Before implementing a project, the implementers should undertake a risk analysis by identifying their strengths and weaknesses (internal forces), and opportunities and threats (external forces). There is a close and mutually reinforcing relationship between planning, implementation and monitoring, as none of the three can be undertaken in isolation from the other two. As a significant beneficiary, the community must be fully involved in monitoring the projects

10. See for example Regenesys (2007), Project Management Training, Ministry of Regional and Local Government, Housing and Rural Development, 2007, and European Commission (2004), Project Cycle Management Guidelines, Volume 1, EC, 2004

6.6.3 Evaluation Phase

Project monitoring is an ongoing process while evaluation is periodical and aims at addressing issues of project relevance, effectiveness and impact. Monitoring and evaluation of projects are fundamental activities to the achievement of project objectives, and improve the overall efficiency of project planning, management and implementation.

6.7 Conclusion

Participation in the planning and budgeting process is a central tenet of democracy and, increasingly, citizen participation in economic policy is advocated for as a way of making government spending more 'pro-poor'. People's budgets, alternative budgets, women's budgets and participatory budgeting have raised hopes and expectations of greater participation by ordinary citizens in communities, NGOs and other CSOs in spending and revenue generation leading to better outcomes for the poor. As budgets are important government documents that are crucial to a nation's development, efforts must be stepped up towards ensuring that the budgeting process is participatory and effective in translating government plans into tangible and long-term development benefits for the people. Members of Parliament must be involved in the planning, monitoring and evaluating development projects in their constituencies.

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THE BUDGET CLASSIFICATION, CHARTS OF ACCOUNTS AND COVERAGE

CHAPTER SEVEN

The Budget Classification, Charts of Accounts and Coverage

7.0 Introduction

In 2021, the Government fully rolled out the Output-Based Budgeting (OBB) system to all MPSAs. The OBB system is a more performance-oriented budget system.

This chapter explains the budget classification system and charts of accounts used in Zambia, with a view to guiding Members of Parliament and National Assembly staff on how to use of the key budget document (the Yellow Book) to monitor budget performance in programmatic terms within a fiscal year. A thorough understanding of the structure and contents of the Yellow Book is important to strengthening the oversight function of the National Assembly, in general, and to enabling Members to analyse a proposed Budget's responsiveness to national policies and priority programmes, in particular.

7.1. Budget Classification

Budget classification is one of the fundamental building blocks of a sound budget management system, as it determines how the budget is recorded, presented and reported and, therefore, has a direct impact on the transparency and coherence of the budget[11]. The Classification of the Functions of Government (COFOG) established by the Organisation for Economic Co-operation and Development (OECD) is a widely accepted international standard for functional classification.

7.1.1 Features of a Sound Budget Classification System

A classification scheme enables a budget to comply with the following three key principles of sound budget management: **comprehensiveness**, which means that the budget should cover all government entities and institutions undertaking government operations and present a consolidated and complete view of these operations; **unity,** which means that a budget should include all revenues and expenditures of all government entities undertaking government operations in order to promote greater efficiency in the allocation of resources; and **internal consistency,** which means that there should be a unitary budget system in which responsibilities for preparing and executing current and capital spending budgets are consolidated within a single central fiscal agency, usually the ministry responsible for finance (OECD, 2015).

11. IMF

The COA configuration represents the hierarchical structures of groups of classifications of information requirements. The following features are considered critical to a system of budget classification that is able to generate useful, timely and reliable information:

a. **Economic (or natural account) Classification –** Identifies the type of expenditure incurred, for example, personal emoluments, goods and services, transfers and assets;

b. **Administrative classification –** Identifies responsibilities for the main blocks of public expenditure and the day-to-day budget administration. Expenditures may be divided into subcategories for each Head: Ministry, Department or Public Entity;

c. **Functional classification –** Organises government activities according to their broad objectives or purposes (e.g., education, social security and housing). This classification is independent of a government's administrative or organisational structure;

d. **Fund classification** (which may include development partners classifications);

e. **Programme classifications -** define programmes and their constituent elements under a programme budgeting system; and

f. **Location or geographic classification -** Geographical classification is where data are classified with reference to geographical locations such as countries, states, cities, districts, etc.

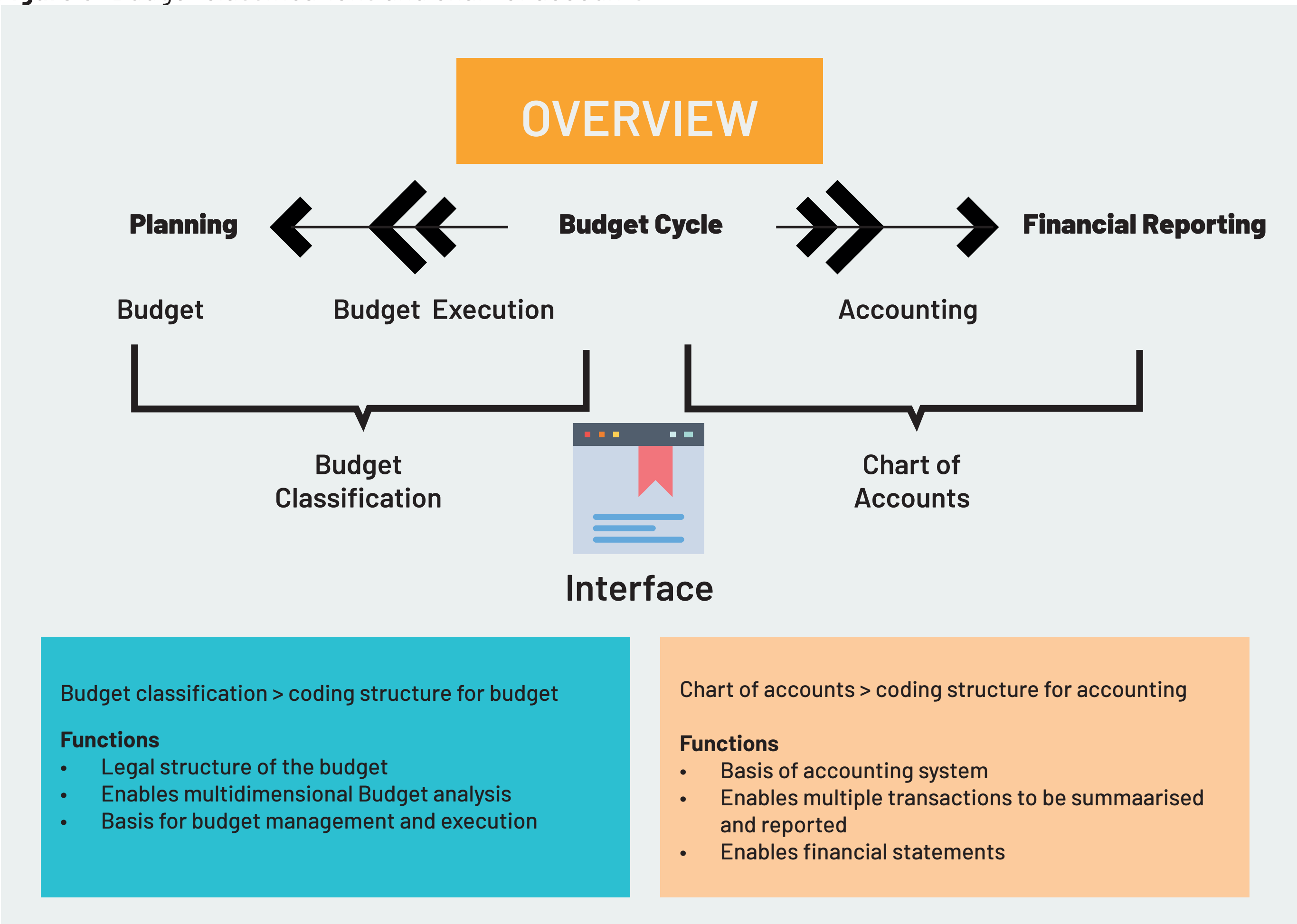
7.2 Programme Accounting and Costing

Budgeting by programmes entails that the budget documents and the accounting system must be programme friendly. In particular, it must be possible to follow budget execution in programmatic terms – that is, to monitor expenditure programme by programme during the year so as to make sure that programme expenditure authorisations are not exceeded. Insofar as line-item authorizations (for spending by economic classification) are expressed in programme terms, it must be also possible to monitor these. For example, if limits are set on salary expenditure for each programme, then the accounting system must continuously monitor salary expenditure by programme. It is not sufficient, for example, to make an estimate of programme expenditure at the end of the year by some approximate means (which would be enough if programmes were intended only for reporting and not budget execution purposes – that is, to provide information on the level of expenditure by policy objective).

7.3 Budget Classification and Charts of Accounts

A well-functioning PFM framework includes an effective accounting and financial reporting system to support fiscal policy analysis and budget management. For a programme budgeting system to work, the "Budget Classification" (BC) and "Chart of Accounts" (COA) must incorporate programmes. The BC and COA are classification systems, in which there is a code number for each transaction which summarizes all of its characteristics according to the classification system.

Figure 6: Budget classifications and chart of accounts



Source: Michael Perry Consulting (2020)

These systems cover not only expenditure, but other transactions such as revenue. But our focus here is exclusively on the classification of expenditure. Expenditure on a particular item (say a salary payment, or a purchase of specific supplies) will in these systems be coded with a sequence of numbers such as 1321-325-257-3, where "13" stands for the ministry, "2" for the department within the ministry, "1" for the unit within the department, "325" the three levels of the economic classification (i.e. the type of input – whether, for example, salary, capital expenditure etc), "257" symbolizes the three levels of the functional classification and the "2" the fund source (e.g. development partner funded). The classification categories used are not set in concrete, but may vary between countries. Some countries might have additional ones, such as a geographic classification, in which case there would be an additional code representing the province and district in which the expenditure took place.

The COA is a coding system used when recording transactions in the accounting system. This means that for every payment made (or commitment made), ministry accounting staff would enter the appropriate code when recording the transaction in the accounts (concretely, in the computerized accounting system). The BC is the classification used in the budget itself – that is, in describing in the budget documents the expenditure which is to take place in the coming year.

The COA and BC should be integrated in the sense that the former should subsume the latter. In other words, the accounting system should record all the expenditure transaction categories that are the basis of budgetary approvals or information, so as to enable expenditure control and reporting in terms of those categories.

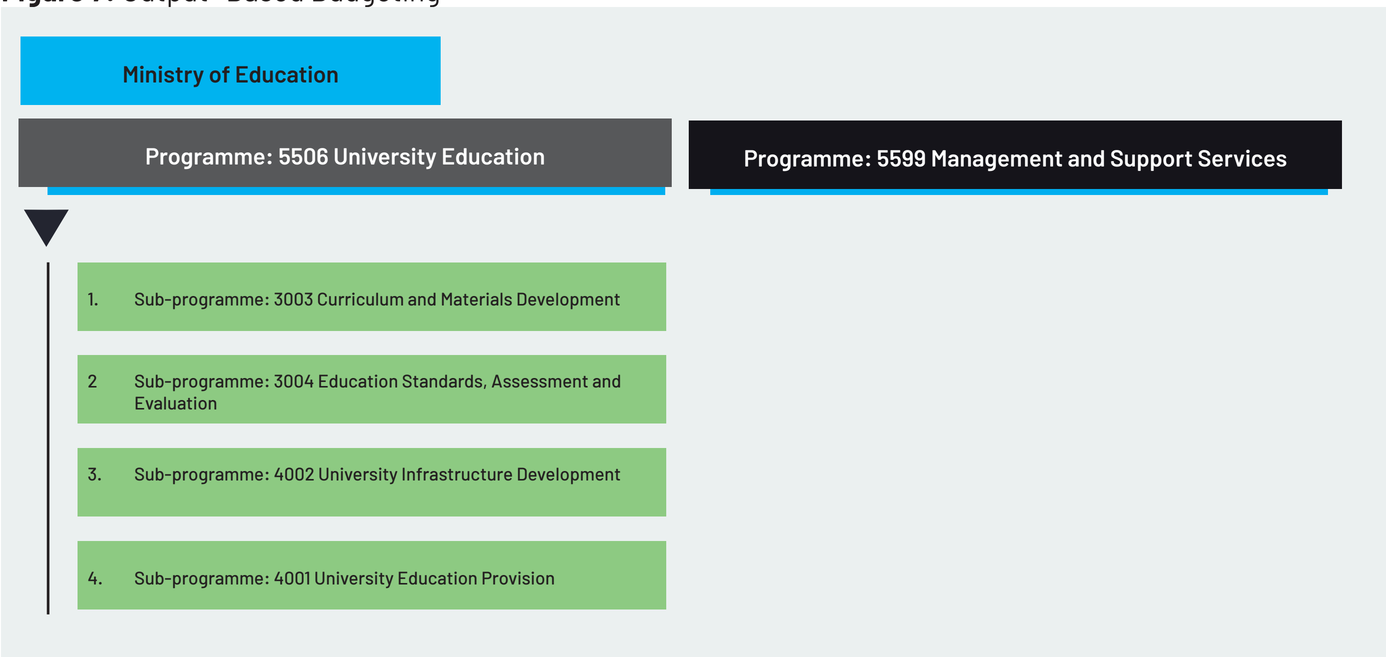
Under programme budgeting, programmes must be incorporated into the COA and BC. Not only the programme, but the subordinate elements of the programme hierarchy (sub-programs etc), should be coded for. So if there is a three-level program hierarchy, three digits will be required for coding purposes.

Programme Hierarchy

Programmes are typically decomposed into constituent "sub-programmes", and sometimes even into lower levels (sub-sub-programmes etc) – it is better to keep the number of levels limited. In the case of Zambia it is kept at two levels (programme and sub-programme). An example of this type of "programme hierarchy" is shown in the figure 7 below.

From Programme to Sub-programme: Head 80 Ministry of Education-an example

Figure 7: Output- Based Budgeting



The structure of an OBB Budget comprises six (6) main sections, namely Mandate, Strategy, National Development Plan Framework (Cluster, Cluster Outcome, Immediate Outcome and Strategy), Budget Summary, Budget Programmes (includes Sub-programmes and Outputs)and a Geographic Location Annex.

OBBs are anchored on clearly articulated outputs, which are the goods or services that an MPSA intends to deliver to the public, providing a basis for actual allocations. The outputs form an important basis for measuring the performance of an MPSA at the end of each budget year. For accountability purposes, the production or provision of outputs must be within the control of the respective MPSA. The output table also outlines output indicators and their respective targets for the previous, current and forth-coming years. Output indicators depict how an output will be measured to assess the performance of a budget programme while output targets are specific values attached to output indicators to be attained in a financial year based on the financial resources allocated to the programme.

1.

HEAD 80 MINISTRY OF EDUCATION

1.0 MANDATE

Formulate and implement Government policy on the following: Adult Literacy; Continuing Education; Early Childhood; Education Policy; Education Standards and Evaluation; Education Broadcasting; Higher Education; Higher Education and scholarships; Higher Education Policy; Higher Education Standards and Evaluation; Library Services; National Training Policy; Primary Education; School Guidance and Counselling Services; Secondary Education and Teacher Training Colleges, as provided for in the Government Gazette Notice No. 1123 of 2021.

2.0 STRATEGY

The Ministry of Education is positioned to provide policy guidance and implement programmes aimed at attaining improved learning outcomes for all. Within the context of the Sustainable Development Goal number four (SDG 4), the Vision 2030 and Eighth National Development Plan (8NDP), the Ministry will continue to contribute to the attainment of the sector and cluster outcomes. The Ministry has put in place strategies aimed at increased access, quality, efficiency and equity for all.

To promote access to education, the Ministry will continue to invest in infrastructure development. Further, private sector participation in education provision will continue to be promoted. This will be complimented with the promotion of Alternative Modes of Education provision.

In the quest to continue improving the quality of education, the Ministry will continue to enhance the training, recruitment and deployment of teachers as well as lecturers. This will be provided in-service and pre-service training. Through periodic curriculum assessments and evaluations, the Ministry will continue with curriculum and materials development for effective, modern and responsive curriculum at all levels. To promote skills acquisition, the Ministry will continue to promote inclusive vocational training and private skills development participation through enhanced provision of skills training and teaching equipment. This will be coupled with the promotion of creation and critical thinkers through Science, Technology, Engineering and Mathematics education.

In order to ensure efficiency in the provision of education, the Ministry will enhance policy coordination, planning and information management. This will involve the review of education policy documents, enhancing the Education Management Information System and strengthening planning and budgeting systems. Finally, the Ministry will continue to promote strategies that will enhance equity and inclusive education for all vulnerable learners at all levels.

3.0 NATIONAL DEVELOPMENT PLAN FRAMEWORK

Cluster : 02 Human and Social Development

Cluster Outcome 01 Improved Education and Skills Development

Strategy : 01 Enhance access to quality, equitable and inclusive education

Strategy : 03 Increased access to higher education

Strategy : 04 Enhance science, technology and innovation

2.

HEAD 80 MINISTRY OF EDUCATION

4.0 BUDGET SUMMARY

The Ministry of Education will contribute to the achievement of the objectives and targets outlined in the Eighth National Development Plan (8NDP). The total estimated budget of expenditure for the Ministry for the year 2023 is K20.3 billion. The Ministry will fulfil its mandate and strategic objectives through the implementation of six (6) programmes namely; Early Childhood Education, Primary Education, Secondary Education, University Education, Youth and Adult Literacy as well as Management and Support Services.

3.

HEAD 80 MINISTRY OF EDUCATION

BUDGET PROGRAMMES

Programme 5501 : Early Childhood Education

Programme Objective(S)

To secure quantitative and qualitative improvement in ECE service delivery through guidelines and standards, and increasing the proportion of 3 to 6-year-old children who have equitable access to ECE.

4.

HEAD 80 MINISTRY OF EDUCATION

BUDGET PROGRAMMES

Programme 5502 : Primary Education

Programme Objective(S)

To provide for free and compulsory education to all learners from grade 1 to 7; improving learning outcomes in the Grade 5 National Assessment Survey; and raise the Grade 7 completion rate to 100 percent.

5.

HEAD 80 MINISTRY OF EDUCATION

BUDGET PROGRAMMES

Programme 5503 : Secondary Education

Programme Objective(S)

To ensure the quality of education standards by improving student teacher contact hours and increasing the proportion of fully qualified teachers, gender equity and parity, a two tier secondary education system; and achieve transition rates of 90 percent.

6.

HEAD 80 MINISTRY OF EDUCATION

BUDGET PROGRAMMES

Programme 5505 : Youth and Adult Literacy

Programme Objective(S)

To increase youth and adult literacy levels through literacy and functional literacy education that is focused on skills development.

7.

HEAD 80 MINISTRY OF EDUCATION

BUDGET PROGRAMMES

Programme 5506 : University Education

Programme Objective(S)

To increase equitable access to, and participation in the provision of quality university education.

7.

HEAD 80 MINISTRY OF EDUCATION

BUDGET PROGRAMMES

Programme 5599 : Management and Support Services

Programme Objective(S)

To ensure effective service delivery in support of the operations of the Ministry of Education.

Budget Summary

Table:1 Budget Allocation by Economic Classification

No	ECONOMIC CLASSIFICATION	2021 APPROVED BUDGET (K)	2022 APPROVED BUDGET (K)	2023 BUDGET ESTIMATE (K)
21	Personal Emoluments	9,291,488,897	10,018,469,507	15,245,465,995
22	Goods and Services	24,656,872	84,793,527	112,721,378
26	Transfers	1,142,273,117	3,460,641,571	3,408,576,129
31	Assets	21,773,109	609,491,497	1,530,547,894
	Head Total	**10,480,191,995**	**14,173,396,102**	**20,297,311,396**

Table:2 Budget Allocation by Programme

Code	Programme	2021 Approved Budget(K)	2022 Approved Budget(K)	2023 Budget Estimates(K)
5501	Early Childhood Education	12,778,445	102,615,365	462,191,493
5502	Primary Education	7,054,956,894	7,961,447,684	12,151,383,170
5503	Secondary Education	2,545,421,948	3,959,641,117	4,973,729,443
5505	Youth and Adult Literacy	2,492,950	2,474,838	4,768,118
5506	University Education	-	1,184,493,081	1,546,165,884
5599	Management and Support Services	864,541,758	962,724,017	1,159,073,288
	Head Total	**10,480,191,995**	**14,173,396,102**	**20,297,311,396**

Programme 5501 Early Childhood Development

Programme 5501 : Early Childhood Education

Table 5: Programme Budget Allocation by Subprogramme

PROGRAMME/SUBPROGRAMME	2021 BUDGET		2022 BUDGET		2023 BUDGE
	Approved	Expenditure	Approved	Expenditure*	Estimates
5501 Early Childhood Education	**12,793,445**		**102,615,365**		**462,191,4**
1001 Early Childhood Education Provision	11,985,074	-	31,496,218	-	301,187,9
1002 Open and Distance Learning	86,924	-	41,000	-	30,0
1003 Teacher Education and Specialized Services	561,521	-	944,997	-	770,4
1005 Educational Standards, Assessment and Evaluation	159,926	-	200,000	-	4,550,0
3003 Curriculum and Materials Development	-	-	393,150	-	568,0
3006 Infrastructure Development	-	-	69,540,000	-	155,085,0
Programme Total	**12,793,445**	-	**102,615,365**		**462,191,4**

Programme: 5501 Early Childhood Education

Table 6: Programme Outputs

Key Output and Output Indicator	2021		2022		2023
	Target	Actual	Target	Actual*	Target
Grade 1 entrants with ECE experience increased					
01 Proportion of Grade 1 entrants with ECE experience	40	41	50	29	50
Children aged 3 to 6 years accessing ECE increased					
02 Number of children aged 3 to 6 years accessing ECE	150,000	9,000	284,000	204,000	284,000
Hubs and ECE Satelite centers established					
03 Number of low cost ECE Centers established	200	50	270	423	500

Executive Authority: Minister of Education

Controlling Officer: Permanent Secretary (Administration), Ministry of Education

7.5 Conclusion

This chapter has outlined the structure of budgetary information found in the Yellow Book in terms of OBB. Output-Based Budgeting is a challenging but potentially important reform in the ongoing struggle to make government more results-oriented. Coupled with other “managing for results” reforms, it can help substantially improve the effectiveness and efficiency of public expenditure.

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RESOURCE MOBILISATION, REVENUE STREAMS AND PATTERNS OF EXPENDITURE

CHAPTER EIGHT

Resource Mobilisation, Revenue Streams And Patterns Of Expenditure

8.0 Introduction

The aim of this chapter is twofold. Firstly, it is to help Members of Parliament and staff of the National Assembly to understand the different sources of revenue, including tax and non-tax (domestic revenues) revenues, as well as public debt, which forms the total resource envelope at the disposal of the PFM system. It further highlights the key factors to consider when designing domestic revenue regimes and other forms of public revenue.

8.1 Resource Mobilisation

Public resource mobilisation refers to all activities of the Government involving securing new public resources as well as maximising performance of existing sources of revenue. The need to strengthen resource mobilisation (domestic and external) continues to be an essential, but challenging area of focus for most developing countries, Zambia included. For instance, the IMF (2011) reports that many lower-income countries still have the potential or inert capacity to increase their tax collections by raising their tax ratios by about two to four percent of Gross Domestic Product (GDP). A supportive environment or political economy with political commitment, robust legal frameworks and an experienced and capable administration is crucial for effective public resource mobilisation.

8.2 Why the Government Mobilises Resources

The Government is obligated to facilitate development and provide essential public goods, services, works and supplies. To meet this obligation, it must have at its disposal sufficient public resources. Therefore, public resources are generated to facilitate the implementation of developmental and service delivery programmes.

8.3 How the Government Mobilises Resources

The Zambian Government mobilises resources from domestic and external sources. In terms of contribution to the budget, Table 3. below shows the relative value of the different sources of revenue.

Table 3: Revenue contribution to the Budget (% of Total Budget 2018-2022)

	2018	2019	2020	2021	2022	Average
Domestic Revenues	68%	65%	68%	55%	57%	63%
Tax Revenues	57%	54%	51%	45%	45%	50%
Non-Tax Revenues	11%	11%	17%	11%	12%	12%
Grants	3%	2%	3%	2%	1%	2%
Financing	28%	33%	29%	43%	42%	35%

Source: Ministry of Finance and National Planning Budget Speeches (2018-2022)

8.3.1 Tax Revenues

Taxes are compulsory monetary contributions to the State revenue assessed and imposed by the Government on economic or business activities, income, property, et cetera, of individuals and organisations. Table 4. below summarises the tax categories currently collected in Zambia.

Table 4. Tax category, legal framework and tax type collected Source: ZRA

Tax Type	2022	2021	Variance
1. DOMESTIC TAXES			
A. Direct Taxes	**11.6%**	**12.4%**	**-0.8%**
Company Tax	4.2%	4.4%	-0.2%
Pay As You Earn (PAYE)	3.6%	3.4%	0.2%
Withholding Tax	1.7%	1.8%	-0.1%
Rental Income Tax	0.1%	n/a	n/a
B. Indirect Taxes			
Local Excise Duty	0.5%	0.5%	0.0%
Local Excise-Cement	0.0%	0.0%	0.0%
Domestic Value-Added Tax (VAT)	1.2%	1.5%	-0.3%
2. TRADE TAXES			
Import VAT	2.9%	2.8%	0.1%
Import Duty	1.1%	1.2%	-0.1%
Export Duty	0.0%	0.0%	0.0%
Import Excise Duty	0.3%	0.3%	0.0%
Carbon Tax	0.0%	0.0%	0.0%
GDP (K' million)	**504,477.0**	**443,362.4**	**61,114.6**

Source: ZRA 2022 Annual Report

8.3.2 Non-Tax Revenues

Non-tax revenues are made up of payments to the Government in the form of fees, such as motor vehicle licensing fees, fines, settlements arising from judicial processes, forfeits, dividends from Government investments and sales of existing goods. It also includes mineral royalties collected by the Zambia Revenue Authority (ZRA), as provided for under Section 88 of the Mines and Minerals Development Act, No. 11 of 2015

8.3.3 Domestic and External Borrowing

The Constitution of Zambia, which is the supreme law of the land, provides for debt contraction. Further, Article 63 (2) (d) provides for the National Assembly to oversee the performance of Executive functions by approving public debt before it is contracted. It further provides, under Part 16 and Article 198 (c), that the guiding principles of public finance include sustainable public borrowing to ensure intergenerational equity. Further, Article 202 (2) provides for the Minister responsible for finance to, when presenting the estimates of revenue and expenditure, specify the maximum limits that the Government intends to borrow or lend in the applicable financial year. In Article 207 (1), the Government is empowered, as prescribed in the Public Debt Management Act, No. 15 of 2022, to:

1. Raise a loan or grant on behalf of itself, a State organ, State institution or other institution;
2. Guarantee a loan or grant on behalf of a State organ, State institution or other institution; or
3. Enter into agreement to give a loan or grant out of the Consolidated Fund, other public fund or public account.

The Constitution further provides for the definition of the category, nature and other terms and conditions of a loan, grant or guarantee that will require the approval by the National Assembly before the loan, grant or guarantee is executed.

The Public Debt Management Act, No 15 of 2022, gives authority to the Minister responsible for finance to raise loans that the Minister considers necessary within the Republic. Section 11(1) of the Act provides for the Minister to have the sole authority to raise loans on behalf of the Republic while Section 11(2) provides for the Minister to raise loans that he or she considers necessary within (domestic) or outside (external) the Republic on behalf of the Republic, except that:

1. The amount outstanding of total Government debt borrowed from within and outside the Republic shall not exceed 65 per cent of the GDP at current market prices computed for the immediate past financial year; and
2. The aggregate amount of the debt service cost due and payable during a financial year for outstanding loans raised outside the Republic shall not exceed 20 percent of the average annual recurrent revenue computed on the basis of the three preceding financial years.

Further, the Minister is compelled through the Public Debt management Act No. 15 of 2022 to present the annual borrowing plans to the National Assembly ninety (90) days before the commencement of the next financial year for approval. Annual borrowing plans have the following features:

a. The total borrowing needs for the next financial year;
b. The purpose of the loans to be contracted;
c. Debt instruments to be used;
d. Broad terms of the borrowings;
e. The indicative timings of the borrowing operations;
f. The maximum limit that the Government intends to borrow in that financial year; and
g. The overall net increase or decrease in public debt.

The Public Debt Management Act also provides that a loan raised for a period exceeding one (1) year shall be paid into the Consolidated Fund or other public fund or public account, except that where a loan is raised under a bond issued through the Bank of Zambia, the proceeds of that loan shall be paid into the Special Deposit Account. The Act further provides that a loan raised for a period that does not exceed one (1) year shall be paid into the Special Deposit Account. Meanwhile, Section 13(1) of the Act provides that a loan may be raised by the issue of a bond or stock, treasury bill or an agreement in writing. However, the Act excludes advances to the Government under the Bank of Zambia Act, 2022, or loans directly contracted by a public body from within the Republic from requiring the approval of the National Assembly

Public resources are also externally mobilised from the following sources:

8.3.4 Grants

Grants are financial contributions from other governments (Bilateral) or international organisations (Multilateral). In Zambia, the main categories of grants are:

1. General Budget Support, which consists of financial contributions from foreign countries and international organisations in support of programmes and activities in the National Budget through the ministry responsible for finance and national planning; Bilateral budget support grants have in the past been received from countries like Germany, Norway and Finland, while multilateral grants have been received from the European Union;

2. Sector Budget Support, which consists of financial contributions from co-operating partners to specific interventions in, and directly to, sectors like education or health; and

3. Project Grants, which are financial contributions from bilateral and multilateral co-operating partners towards the implementation of specific projects.

8.4 Administration of Government Resources

In Zambia, until 1994, all Government resources were administered by the Minister of Finance. Taxes were administered by the Departments of Taxes and Customs and Excise. Conversely, non-tax revenues were administered by different Government revenue collecting departments on behalf of the Minister of Finance who is mandated to mobilise Government resources under the Minister of Finance Incorporation Act. Grants were administered by the External Resource Mobilisation Department while loans and Government investments were administered by the Investment and Debt Management Department.

Government launched a tax reform in 1992. In addition to other policy initiatives, the reform programme included a major overhaul of tax administration that culminated in the establishment of the Zambia Revenue Authority (ZRA) in 1994, charged with the responsibility of tax administration. ZRA operates as a semi-autonomous institution funded from general revenues of the Republic. It administers taxation on behalf of the Government in line with government tax policy as may be prescribed by the Government through tax legislation. The objective is to increase domestic resource mobilization to meet the growing expenditure demands of the Government. In doing so, ZRA follows the main principles of taxation to ensure that the taxation system is efficient, effective and fair.

The other resources, non-tax revenues, grants and loans are still being administered by the Minister of Finance and National Planning (MoFNP), with the fees and fines component under the non-tax revenues being administered by the non-tax collecting institutions on behalf of the MMoFNP, while dividends (Government Investment) are administered by the Industrial Development Corporation (IDC) on behalf of the Minister.

8.4.1 Guiding Principles in Designing a Good Tax System

In many developing countries, including Zambia, taxes constitute the main source of Government revenue. A good tax system will help government to collect revenues without constraining the taxpayer. There are a number of broad tax policy considerations that have traditionally guided the development of good taxation systems.

The box below gives a summary of the broad tax policy consideration that the Organisation for Economic Co-operation and Development (OECD) has identified (OECD 2014).

Box 2.
Tax Policy Consideration identified by the OEDC that have traditionally guided the development of good tax systems are: -

Neutrality: Taxation should seek to be neutral and equitable between forms of business activities. A neutral tax will contribute to efficiency by ensuring that optimal allocation of the means of production is achieved;

Equity: Taxpayers in a similar situation should be taxed similarly. This includes horizontal equity (taxpayers with equal ability to pay should pay the same amount of taxes) and vertical equity (taxpayers with a greater ability to pay should pay more taxes;

Certainty: Tax rules should clearly specify when and how a tax is to be paid and how the amount will be determined. Certainty may be viewed as the level of confidence a person has that a tax is being calculated correctly;

Efficiency: This simply means that compliance costs to business and administration costs for governments should be minimised as far as possible;

Effectiveness and fairness: Taxation should produce the right amount of tax at the right time, while avoiding both double taxation and unintentional non-taxation. In addition, the potential for evasion and avoidance should be minimised;

Flexibility: It is important that a tax system be dynamic and flexible enough to meet the current revenue needs of governments while adapting to changing needs on an ongoing basis; and

Simplicity: Taxpayers should be able to understand the rules and comply with them correctly and in a cost-efficient manner.

8.4.2 Challenges in Tax Administration and Measures to address them

The growth of tax revenues as a share of GDP has been slow even after establishing ZRA as an autonomous body. Government in its policy and development documents acknowledges that there is still scope to raise more resources if reforms to tackle underlying structural factors notably, corruption, government effectiveness, and inequality are resolved. Further, besides the formal tax structure and tax administration reformed, there is also need for political will and local ownership through dialogue with citizens

An assessment of the Zambia's tax administration was undertaken in 2016 using the Tax Administration Assessment Tool (TADAT). The results of the assessment identified the main strengths and weaknesses of the tax administration.

Table 5. TADAT assessment of Zambia's Tax Administration System-2016

Strengths	Weaknesses
The ZRA has in place a comprehensive structured process to identify, assess, prioritise, and mitigate institutional risks	The is uncertainty on the number of registered taxpayers and overall, the accuracy of the taxpayer registration data base
A wide range of information is available through various channels, and feedback from taxpayers is regularly sought	Very low rates of on-time filing across all core tax types
The TaxOnline system provides a strong foundation for taxpayer accounts, and enables high levels of electronic filing and payment	The value of tax arrears is very high, casting doubt on debt management procedures
Use of efficient collection systems such as withholding and advance payment is good	Management of compliance risks is weak and fragmented, and outcomes of compliance activities, including audits, are not evaluated. Bulk data crossmatching is not used
Cases for audit are selected centrally, on the basis of identified risks	ZRA's handling of disputes is not independent of the audit process and there is no set period within which an administrative review must be completed
A graduated dispute resolution process including a tax appeals tribunal exists and is used	An ombudsman exists but is not used for addressing complaints about ZRA
The revenue accounting system is robust, and funds for repayment claims are ringfenced	The revenue accounting system does not interface with that of the Ministry of Finance and National Planning
Regular internal and external audits provide good oversight and accountability	There are significant delays in processing claims and making VAT refunds
Annual reports, strategic plans, and responses to audit findings are produced in a timely manner and published	ZRA does not have a system of public or private binding rules or cooperative compliance arrangements

source TADAT (2016)

The IMF in the 2022, Governance and Anti-Corruption Assessment Report for Zambia made some recommendations to resolve some of ZRA challenges as shown below:

- Adoption of robust governance and strategic management frameworks, as well as the modernization of core operational functions (including taxpayer service, filing and payment, audit, enforcement collection, and dispute resolution).
- Prioritize improvements and development of systems that have large amounts of money at stake, such as the VAT refund process, including the promulgation of mandatory instructions to harmonize treatments for each VAT refund claim.
- Develop a comprehensive institutional framework for compliance risk management.

- Implement electronic case management systems for all ZRA units.
- Take measures to raise awareness about means and channels for reporting corruption in the revenue administration and introduce a dedicated channel for reporting.

In order to overcome some challenges in revenue administration, ZRA has also undertaken a number of initiatives including:

- Producing revenue forecasts and expectations.
- Monitoring revenue collection and produce performance reports
- Operationalizing revised deregistration rules to remove inactive taxpayers.
- Expanding the usage of social media platforms for taxpayer education.
- Enhancing third party integration to improve data quality.
- Developing new ICT systems.
- Developing the data governance framework.
- Implementing corruption prevention plan.

8.5 Management of Receipts and Expenditures

The Executive, through the ministry responsible for finance and national planning, is charged with administering the PFM system. That mandate includes mobilising public resources and releasing funds from the Consolidated Fund for appropriation to MPSAs for them to meet pre-agreed public policy goals. The ministry is also responsible for annually reporting on all revenue, financing and expenditure of public resources in the National Budget in terms of functions of the Government.

8.5.1 Treasury Single Account for the Management of Receipts and Expenditures

The Treasury Single Account (TSA) is a centralized accounting system that consolidates all government cash resources into a single account held by the central bank. It is established under the Public Financial Management Act No. 1 of 2018 and aims to improve efficiency, fiscal discipline, and transparency in government financial management by providing a real-time view of government cash balances.

The TSA minimizes borrowing costs and ensures all received cash is available for government expenditure programs and payments. Fragmented systems for handling government receipts and payments lead to idle cash balances in numerous bank accounts held by spending agencies, resulting in unnecessary borrowing costs and lost revenue. The TSA solves these problems, improves cash management and control, facilitates better fiscal and monetary policy coordination, improves the quality of fiscal information, and reduces debt servicing costs.

The TSA also manages government expenditure. Funds payable from the Consolidated Fund to a head of expenditure under an Appropriation Act or warrant signed by the President are deposited into a Treasury Account maintained at the Bank of Zambia within the TSA system.

8.6 Conclusion

The Executive is responsible for administering the PFM system in terms of both resource mobilisation and public expenditure. Resource mobilisation is key for securing the resources needed for the country's development agenda. In raising domestic resources, the Government relies on both tax and non-tax revenues collectively referred to as total domestic revenue. In addition to domestic resources, it draws on donor support through grants and concessional loans. The Government also borrows from both domestic and external markets. As the Executive strives to spend the public resources at its disposal prudently, rationally, efficiently, effectively and equitably towards inclusive and sustainable development, the National Assembly is mandated to ensure that these objectives are achieved.

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LINKAGES AMONG REVENUES, SECTOR POLICIES, BUDGETARY ALLOCATIONS AND ECONOMIC POLICIES

CHAPTER NINE

Linkages Among Revenues, Sector Policies, Budgetary Allocations And Economic Policies

9.0 Introduction

One of the most challenging political tasks in the budgeting process is ensuring that government revenues are allocated according to the objectives set out in NDPs so and, thus, contribute to poverty reduction and economic growth. This chapter explains fiscal policy, budgetary allocation, sector composition and policies, sector performance, economic growth, poverty reduction, and inclusive development, and how these interlink in principle and practice. Finally, the chapter explores some practical challenges facing the public sector taking into account the interplay between fiscal policies and sector policies to enhance economic growth, reduce poverty and achieve development.

9.1 Fiscal Policy

Fiscal policy encompasses policies on revenue mobilisation, expenditure and the overall budget balance, and is concerned with how the public sector mobilises fiscal resources and allocates them across spending agencies, how those resources are spent on public programmes and projects, and how the Budget is balanced when there are marked revenue deficits.

9.2 Factors Underpinning Inclusive Development

Sustainable development requires the integration and balancing of economic, social and environmental considerations to serve the public interests of current and future generations. To this end, public expenditure planning and better linkages among NDPs, sector plans and the Budget are essential.

Fiscal policy, sector policies, economic growth and poverty reduction all contribute to inclusive development, which entails improving the well-being of all citizens while safeguarding the well-being of future generations. It envisions a long-term or inter-generational approach to human progress and development. Each society is responsible for making its own political and economic choices about what constitutes human progress or well-being.

Zambia's economy is anchored on defined short-term and long-term developmental aspirations. The country's long-term inspiration is the Vision 2030[12], which envisions Zambia becoming a prosperous middle-income country by 2030. Under Vision 2030, the country's Eighth National Development Plan (8NDP), 2022-2026, focuses on "socio-economic transformation for improved livelihoods", and aims "to improve the economy's efficiency and competitiveness to sustain the people's living standards[13]." The emphasis is on the need to get the country back on the track towards economic recovery, stability and steady growth, coupled with interventions in the social sectors to realise the socio-economic transformation that will ultimately uplift the livelihoods of Zambians.

9.3 Development Approach

Zambia's legal and policy framework guides the development approach taken by the Government and provides for co-ordinated, integrated participatory, responsive and results-oriented national development planning and budgeting processes. The 8NDP was formulated in line with the provisions of the National Planning and Budgeting Act, No. 1 of 2020, and the National Planning and Budgeting Policy of 2014.

In the short-term, the governance and management systems of the economy use a range of policy instruments ranging from macro-economic (fiscal, monetary and the external sector, including trade) policies to micro-economic or sectoral policies. Some key concepts in inclusive development are explained below.

12. Republic of Zambia, 2006, Vision 2030 – A Prosperous Middle-Income Nation by 2030
13. MOF (2022), Eighth National Development Plan 2022-2026, Lusaka, Republic of Zambia, Ministry of Finance

9.3.1 Fiscal Revenue

Fiscal revenue is the money mobilised by the Government in a given fiscal year.

An important point about fiscal resources is that the public sector, in anticipation of a Budget deficit can plan to borrow additional funds. This is referred to as deficit financing. Thus, Zambia's National Budget often specifies "Total Revenue and Financing", which reflects the total amount of available public resources (including borrowed public funds). Members of Parliament and National Assembly staff must appreciate the fact that various financing options must be balanced to arrive at the revenues needed and that budgetary augmentations, such as deficit financing, have a significant bearing on whether or not the country will have sufficient public resources to run its programmes and projects. Augmentations also significantly affect the size of the debt stock future generations will be burdened with.

9.3.2 Budgetary Allocation

The National Budget is a management and planning tool that estimates revenues and expenditures for a specific period, and assists in allocating resources across competing areas of need. Thus, a budgetary allocation is the amount of funding allocated to each expenditure line in the budget. In practice, budgetary allocations can be organised according to several different classifications, such as by function, programme and activity, or Central Government Operations or economic activity/sector.

9.3.3 Economic Growth

Simply put, economic growth is the increase in the total amount of goods and services produced by an economy over a given period, usually one calendar year, and it represents the totality of efforts or economic activities of individuals, households, private sector firms and the public sector in generating material wealth in a year.

The total economic output of a country or GDP, is measured using various survey and statistical approaches of data collection, processing and analysis. The Zambia Statistics Agency (ZamStats) is responsible for computing the country's GDP and its growth rate – the percentage rate of increase in the GDP from one year to the next. Growth can be computed in real or constant terms, in which the measurement is adjusted for inflation (general price increases), or nominal or current terms, in which case, no adjustments are made to cater for inflation.

The real GDP indicator does not show where the positive performance came from and what the main economic activities or sectors responsible for the growth were. To get a clearer picture of these issues, it is necessary to consider the sectoral structure of the Zambian economy and identify the policies that may have influenced the change in the composition of the economy.

9.3.4 Sectoral Composition, Sector Policies and Performance

An economy's sectoral composition or structure is the underlying framework, including transportation and communications systems, industrial facilities, education and technology, that enables a country or region to produce goods, services and other resources with exchange value (https://www.eionet.europa.eu/gemet/en/concept/13148). An explanation of an economy's structure is an account of how private firms, households and the public sector are organised in undertaking their respective economic activities. To better understand the economy, and support an organised and systematic administration of public policies, reference is usually made to an international classification of economic activities and sectors based on similarities of the underpinning production activities.

At the most aggregate level, an economy can be categorised into four sectors, namely agriculture, (natural) resource extraction, manufacturing and services. ZamStats uses a variant of the international classifications in Zambia, categorising economic activities into the primary, secondary and tertiary sectors.

Sectoral policies are derived from the priorities set in the short-term, medium-term and long-term plans and strategies. For instance, Zambia's National Budget, as a short-term fiscal policy instrument, determines the allocation or distribution of public resources across the sectors and sub-sectors of the economy. In turn, the Budget is informed in the medium term by the MTBP which sets out the medium-term fiscal spending priorities over a three-year rolling time horizon. The MTBPs are the basis for implementation of NDPs, which take a longer-term developmental perspective covering five years. While these envisaged linkages among short-term, medium-term and long-term fiscal and sectoral policies generally promote effectiveness in implementation of the policies, capacity constraints, co-ordination challenges and conflict of interests may limit or even totally hinder reverse the effectiveness planned for.

9.3.5 Poverty Reduction

Poverty' is an evasive and complex concept. For purposes of this discussion, the concept is simplified to denote income poverty, which is a situation in which a person's or family's monthly income does not meet an established minimum national expenditure threshold.

ZamStats has adopted the material well-being measure of poverty in which the poor are defined as those members of society who cannot afford minimum basic human needs, comprising food and non-food items, given all their total income. The agency computes absolute poverty lines or thresholds that specify the amount of money required to meet a minimum standard of living, such as basic nutrition and essential non-food necessities (basic clothing, housing, etc.). Therefore, any family whose monthly income or expenditure level is too low to afford the minimum living standard is said to be income poor. The national count of all such families, taken as a proportion of all households in Zambia, gives an estimate of the national poverty headcount.

A key objective of macro-economic and micro-economic (sectoral) policies is to ensure that no one is left behind in the process of economic growth. In other words, the benefits of growth and prosperity should be distributed fairly across the population, which should, in turn, be reflected in a general reduction in poverty levels.

When planning and budgeting systems are well linked, benefits that will emerge include:

1. A more co-ordinated implementation of planned priorities (aligned to Government priorities, including the Sustainable Development Goals (SDGs), and better development outcomes;
2. Improved accountability for performance by implementing agencies; and
3. Informed monitoring of performance, among other results, allows for the adapting of resource allocations for improved delivery of national priorities.

9. 4 Conclusion

In Zambia, the Executive is responsible for ensuring inclusive development, as it is the custodian of national resources for managing the economy. A significant challenge in this regard is that while the public sector can only mobilise a finite amount of resources, the expectations and needs of citizens are almost infinite. As a result of a multiplicity of needs and wants competing for limited resources, contradictions, conflicting interests and co-ordination challenges often emerge. For instance, Members of Parliament often find themselves caught up between two opposing interests, one being their duty to influence the allocation and utilisation of public resources towards equitable, sustainable and inclusive economic growth, and the other being an inclination to steer public resources towards activities that maximise the accrual of political power and personal interest. This situation inevitably requires making difficult trade-offs that sometimes lead to sub-optimal policy formulation and implementation outcomes.

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GOVERNMENT ACCOUNTING, REPORTING STANDARDS AND PRACTICES

CHAPTER TEN

Government Accounting, Reporting Standards and Practices

10.0 Introduction

Good accounting and reporting standards and policies provide the basis for effective internal and external controls that safeguard public resources. Several financial reporting issues are common to all bases of accounting and, regardless of the basis of accounting adopted by a government, these issues are relevant. This chapter explains the principles and policies of government accounting and reporting standards, as well as the importance of adhering to internationally accepted standards and principles in upholding transparency and accountability in the receipt and usage of public resources.

Through the ministry responsible for finance and national planning, the Government of Zambia guides all Ministries, Provinces, and Spending Agencies (MPSAs) on the adoption of standards and policies for purposes of ensuring uniformity in recording of financial transactions across the Government. Therefore, government accounting maintains tight control over resources while also compartmentalising activities into different funds in order to clarify how the resources are directed to various programmes. All MPSAs of the Government use this approach.

10.1 Accounting Standards and the Chart of Accounts

The accounting standard practice and the chart of accounts form the structure for recording, classifying and reporting of revenues or receipts and expenditures used by the ministry responsible for finance and national planning at all levels. The accounting system and the chart of accounts of the ministry responsible for finance and national planning are based on Government financial and accounting procedures. Uniformity is ensured by adherence to the Public Finance Management Act, No.1 of 2018, Statutory Instrument (SI) No.97 of 2020 (the Public Finance Management General Regulations, 2020), the Public Procurement Act, No. 8 of 2020, and circulars issued by the ministry responsible for finance and national planning.

10.1.1 Accounting System

The Government embarked on the most comprehensive PFM reforms between 2005 and 2015. These included the implementation of the Public Expenditure Management and Financial Accountability (PEMFA) Programme and the Public Financial Management Reform Strategy. One of the main components of the reforms was implementation of the Integrated Financial Management Information System (IFMIS). So far, some components of IFMIS have been rolled out in fifty-six institutions. The modules include the general ledger, procurement system, and accounts payable.

10.1.2 The Role of Accounting Standards Board

There are thirty-two accrual basis International Public Sector Accounting Standards (IPSAS) standards. If a standard does not exist for a particular area, the organisation is encouraged to look to pronouncements of the International Accounting Standards Board (IASB), including International Financial Reporting Standards (IFRS), for relevant guidance. The Standards Board develops the IFRS and other guidance standards. This policy framework, which is based on the requirements of the IPSAS Standards, can be updated when there is an amendment to the standards or issuance of new standards.

10.2 The Objectives of Financial Reporting

The determination of the objectives of financial reporting is the first step in the process of governmental financial reporting. The objectives then lead to the selection of a basis for accounting and determining the accounting policies. In practice, a government's use of a basis of accounting might result from historical developments and available resources rather than an explicit decision. However, considering the objectives of financial reporting is an important step in deciding whether to retain a basis of accounting or adopt a different basis, and in determining the accounting policies to be applied within a basis.

The overriding objective of financial reporting is to provide information that meets the needs of users, such as the Public Accounts Committee and the Planning and Budgeting Committee. It is therefore important to identify the principal users of government financial reports and the types of information they require. It is also helpful to consider the environment in which government financial reporting takes place and the purpose of financial reports.

Set out below are distinguishing features of the public sector's operating environment that influence the nature of the information reported;

a. Governments do not exist to make a profit. Instead, they are concerned with the welfare of their citizens, determining the best way of financing the goods and services they wish to provide to their citizens and establishing the regulatory framework in which business is conducted.

b. Government functions vary across jurisdictions and across levels. Such functions often include the provision of social services like health and education. The absence of a profit motive in most government entities means that various financial and non-financial performance indicators may be required to assess performance.

c. Authorisation to use public resources and the management of the resources are usually done by different arms of government, namely the Legislature and the Executive.

d. Legislatures have the right to hold the Executive accountable for the management of entrusted public financial resources.

e. Public sector entities should demonstrate the capacity to provide the goods and services required by citizens using the least amount of the available resources possible.

The distinguishing characteristics of the public sector highlighted above have led to the development of additional forms of reporting that are not usually part of the traditional model for private sector financial reporting, such as non-financial performance reporting and compliance reporting. One of the challenges facing the public sector is the need to measure the consequences of government policy decisions and the implementation of those decisions.

10.3 Government Accounting Standards and Principles (IPSAS)

The IPSAS are a common set of principles, standards and procedures that define the basis of financial accounting policies and practices. The standards take into account the characteristics of the public sector. They are high-quality global financial reporting standards for public sector entities other than government business enterprises. The standards also specify when and how economic events are to be recognised, measured and displayed. External entities, such as banks, investors and regulatory agencies, rely on accounting standards to provide relevant and accurate information about an entity. These technical specifications have ensured

transparency in reporting and set the boundaries for financial reporting measures.

The IPSAS focus the Government's financial statements on expenditures and revenues, and the balance sheets of governmental funds do not include long-term assets or any assets that will not be converted into cash to settle current liabilities. Similarly, the balance sheets do not contain any long-term liabilities, since such liabilities do not require the use of current financial resources on their settlement. This measurement is only used in governmental accounting standards.

10.3.1 Reasons for the introduction of IPSAS

The IPSAS are being introduced to improve the quality of financial reporting in government or public sector entities, leading to better informed assessments of the resource allocation decisions made by the Government, thereby increasing transparency and accountability. The Government Accounting Standards Board sets standards that follow the Generally Accepted Accounting Principles (GAAPs). The standards are intended to promote financial reporting and provide useful information to groups and individuals who use financial reports, including public officials, investors and taxpayers. This set of common principles, standards and procedures is the basis of financial accounting policies and practices.

10.3.2 Presentation of Financial Statements

Applying IPSAS entails substantial modifications to the presentation and structure of government financial statements. More importantly, it requires audited financial statements on an annual basis. In particular, primary financial statements no longer refer to the different categories of funds, but show a single, aggregated position for reporting purposes. New statements, such as changes in net assets, are required and detailed note disclosures, including segment information and a reconciliation of financial statements to the budget, are to be provided.

10.3.3 The Impact of IPSAS on Financial Statements

IPSAS is the set of accounting standards that will guide the presentation of government financial statements in the Republic of Zambia in the future. However, implementing IPSAS goes far beyond the accounting function; as IPSAS-compliant accounting policies are put in place, there is a need to change procedures, detailed workflows and instructions, as well as the control framework that underpins financial accounting and reporting standards in the Government.

10.3.4 Understanding Accounting Standards and Reports

IPSAS is the set of accounting standards that will guide the presentation of government financial statements in the Republic of Zambia in the future. However, implementing IPSAS goes far beyond the accounting function; as IPSAS-compliant accounting policies are put in place, there is a need to change procedures, detailed workflows and instructions, as well as the control framework that underpins financial accounting and reporting standards in the Government.

10.3.4 Understanding Accounting Standards and Reports

Accounting standards improve the transparency of financial reporting in all countries, including Zambia, and specify when and how economic events are to be recognised, measured and displayed. External entities, such as commercial banks, investors and regulatory agencies, rely on accounting standards to provide relevant and accurate information about entities of interest. These technical pronouncements have ensured transparency in reporting and set the boundaries for financial reporting measures. These reports should meet tenets and qualities as set out below.

1. **Understandability -** An essential quality of information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable general knowledge of accounting, business and economic activities. However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it might be too difficult for some users to understand.

2. **Relevance -** Information must be relevant to users' decision-making needs. Information is relevant when it influences economic decisions by helping the Legislature, the Executive and other users to evaluate past, present or future events, or to confirm or correct their past evaluations. Financial statements must have predictive value and confirm past events.

3. **Materiality -** Information is material if its omission or misstatement can influence the economic decisions or assessments made based on the financial statements. Whether information should be disclosed in the financial statements or not will depend on its materiality, which depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic that information must have if it is to be useful. Either the size or the nature of the item, or a combination of both, is the determining factor. Materiality is relevant to judgments regarding both the selection and application of accounting policies and the omission or disclosure of information in financial statements.

4. **Reliability -** Information is reliable when its free from material error and bias, and can be depended upon by the Legislature, the Executive and other users to faithfully represent what it either purports to represent or could reasonably be expected to represent.

   Information might be relevant, yet so unreliable in nature or misrepresented that its recognition might be potentially misleading. For example, if the validity and amount of misappropriated funds or fraud that is the subject of a legal action are disputed, it might be inappropriate for the entity concerned to recognise the full amount of the claim in the financial statements before a settlement is reached. However, it might be appropriate to disclose the amount and circumstances of the claim.

5. **Comparability -** Legislators and other users must compare the financial statements of an entity or the Government over time in order to identify trends in the entity's financial position and performance. They must also compare different entities' financial statements to evaluate the entities' relative financial positions and performances. Hence, the measurements and displays of the financial effect of transactions and other events must be consistent throughout an entity and over time for a given entity and across different entities. It is, therefore, important to disclose the accounting policies used and any changes made thereto. It is also important for financial statements to present corresponding information for preceding periods. Comparative figures are not required in respect of financial statements to which accrual accounting is first adopted in accordance with IPSAS and per the guidance of the Government on accounting standards.

6. **Consistency -**Accounting rules, practices, concepts and conventions should be continuously observed and applied. For example, they should not change from one year to another. The rationale behind this convention is that frequent changes in accounting treatment would make financial statements unreliable.

7. **Fair presentation -** Financial statements are frequently described as presenting fairly the financial position,

performance and changes in the financial position of the Government or entity. Applying the principal qualitative characteristics and appropriate accounting standards normally results in financial statements that are generally understood as presenting fairly such information.

8. **Prudence -** Prudence is the application of an adequate degree of caution in the exercise of professional judgments and making of estimates under conditions of uncertainty so that revenues or expenditure, assets and income are not overstated, or liabilities or expenses are understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, as that results in financial statements that are not neutral.

10.4 The Basis of Accounting

The Accrual Basis of accounting is adjusted when dealing with government funds. The sum of the adjustments is referred to as the modified accrual basis. Under the modified basis of accounting, revenue and government fund resources (such as proceeds from a debt issuance) are recognised when they become susceptible to accrual. This means that these items are not only available to finance the period's expenditures, but are also measurable. The 'available' concept implies that the revenue and other fund resources are collectible within the current period or sufficiently soon thereafter, thereby being available to pay for the current period's liabilities. The 'measurable' concept allows the Government to know the exact amount of revenue in order to accrue it.

Cash Accounting is an accounting method in which receipts are recorded during the period they are received, and expenses are recorded in the period in which they are actually paid. On the other hand, Accrual Accounting is a method that records revenues and expenses when they are incurred, regardless of when cash is actually paid. The term 'accrual' refers to any individual entry recording revenue or expense in the absence of a cash transaction. This, therefore, means that revenues and expenditures are recognised and reported in the period they relate to regardless of when the revenue is actually received and/or when the expenditure is actually incurred.

Cash Basis IPSAS is less complex and its management less resource-demanding than Accrual Basis IPSAS. It is relatively easy to understand and verify, and is generally compatible with the statutory requirements of many countries. The Government mainly uses the Cash Basis in conjunction with the Commitment System for budgetary control purposes.

Under the Commitment System, planned and approved expenditures that have not yet been made, but will be in the reporting period are first entered into the accounting system as commitments. Authorised expenditure (or available budget) is reduced by commitments that have not been liquidated (i.e., not been followed by a cash payment). However, the purpose of the preparation of accounts under the Accrual Basis is to identify the full costs of the services provided at the time they are being provided so that taxpayers receiving those services pay for them rather than pass the costs on to future generations (intergenerational equity), and permit the preparation of financial statements for the whole of Government that reflect the actual financial condition regardless of whether goods or services have been paid for or cash has been received.

Box 3: Government Accounting, Reporting Standards and Practices (IPSAS)

The Ministry of Finance and National Planning gives instructions to all MPSAs on the adoption of standards and policies for the purpose of ensuring uniformity in the recording of financial transactions across the Government.
The accounting standard practice and the chart of accounts form the structure of recording, classifying and reporting revenues and expenditures used by the Ministry of Finance and National Planning at all levels.

IPSAS is a set of common principles, standards and procedures that define the basis of financial accounting policies and practices. They also specify when and how economic events are to be recognised, measured and displayed.

Accounting standards improve the transparency of financial reporting in all countries, including Zambia. To achieve their objectives, reports must have the qualities of understandability, relevance, materiality, reliability, comparability, consistency, fair presentation and prudence.

The Accrual Basis of accounting is adjusted when dealing with government funds. The sum of adjustments is referred to as the **Modified Accrual Basis**.

Cash Accounting is an accounting method in which receipts are recorded during the period they are received, and expenses are recorded in the period in which they are actually paid.

10.5 Conclusion

The transparency and accountability of government's financial management is facilitated with the provision of reliable and relevant information that is provided on a timely basis. Whichever standards are adopted, through the financial management legal framework or regulatory instructions to the respective government levels, they should have the attributes highlighted in this chapter.

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PUBLIC PROCUREMENT

CHAPTER ELEVEN

Public Procurement

11.0 Introduction

Public procurement is the spending of public money on the acquisition of goods, services[14] and infrastructural works by public entities to support their operations in the provision of public goods, works and services. The objective of public procurement is to acquire goods, services and works in the best and cost effective way through a competitive bidding process that meets the programme and operational objectives of government policies. To prevent wastage of public resources, the procurement process must be transparent, cost-effective, timely and within the law. This is important because the procurement system is vital for the development of any nation, as a substantial portion of the country's total public spending involves procurement. When the public procurement system is efficient, and rules and procedures are strictly followed, several benefits, such as reduced corruption, financial savings, value-for-money and economic empowerment accrue to citizens.

11.1 The Legal and Institutional Framework of Public Procurement

Article 210 of the Constitution of Zambia outlines the general objectives of public procurement in Zambia, with which State organs, institutions and public offices can procure goods and services. The Article also provides for a procurement system that is fair, equitable, transparent, competitive and cost-effective, and is reinforced by the Public Procurement Act (PPA), No. 8 of 2020, the Public Procurement Regulations, 2022, Statutory Instrument (SI) No. 30 of 2022 and the Public Finance Management Act (PFMA), No. 1 of 2018, which provide the institutional and regulatory framework for the management of public funds; strengthen accountability, oversight, management and control of public funds; and prescribe the responsibilities and fiduciary duties of controlling officers and controlling bodies.

The Public Finance Management Act, No. 1 of 2018 is meant to prevent financial misconduct and irregular expenditure. 'Financial misconduct' is defined as "wilful or negligent act or omission which permits an unauthorised, irregular or wasteful expenditure, theft, or misapplication of funds", while 'irregular expenditure' is defined as "expenditure, other than unauthorised expenditure, incurred in contravention of the PFMA or any other law, including the PPA or any regulations made in terms of the PPA; or the National Planning and Budgeting Act No.1 of 2020". 'Wasteful expenditure' is defined as unnecessary expenditure incurred due to undue care and attention. In light of the above, Section 11 of the PFMA places fiduciary responsibility on controlling officers for planning and controlling revenue collection and expenditure of public funds appropriated to the agencies under their control, including ensuring compliance with the requirements of the PPA, and preventing irregular or wasteful expenditure, misapplication of funds, theft, or losses resulting from negligence or criminal conduct.

In terms of fighting procurement corruption, the PPA is supported by the Anti-Corruption Act, No. 3 of 2012; the Public Interest Disclosure (Protection of whistleblowers) Act, No. 4 of 2010; and the Financial Intelligence Act (FICA), No. 46 of 2010.

11.2 Principles of Public Procurement

Public procurement is guided by the following set of universal principles and a code of conduct, which, along with relevant pieces of legislation, comprise the framework for public procurement management:

a. **Transparency –** public procurement information be accessible to all bidders and stakeholders except for confidential information;

b. **Integrity –** the reliability of bidding information provided by the procuring entity to all bidders and other stakeholders to ensure public confidence;

14. Services are made up of 'consulting services' such as feasibility studies, project management, engineering services, finance and accounting services, training and capacity building, etc.', whilst 'non-consulting services' include equipment maintenance and repair, operation and maintenance services, utility management, installation and maintenance services.

c. **Economy –** efficiency, fair pricing, and managing public resources with due care and diligence so that money spent represents good value;

d. **Openness –** public procurement requirements must not be kept secret, that is, they should be open to all those qualified to participate in the bidding process and the public, except where confidentiality is necessary;

e. **fairness –** treating all bidders similarly and without bias; there should be no preferential treatment of any bidder;

f. **Competition –** no one should be hindered from participation in the procurement, and all tender requirements must be proportionate to the subject of the contract; and

g. **Accountability –** individuals are responsible for their actions and decisions; everyone involved in the procurement process must be accountable and sanctioned when they flout the rules.

In addition, PPA of 2020 introduced the following concepts:

- **Value for money –** the need to choose appropriate procedures and cause the procurement process to be carried out diligently and efficiently so that the prices paid or received by the procuring entity represents the best value or net outcome that can reasonably be obtained for the funds applied;
- **Market price index –** a market price index must be published for the standard goods, works and services with known market prices as a reference guide; and
- **Price reasonableness analysis –** a review of the prices proposed by a supplier in order to ascertain whether they are fair to the procuring entity and supplier.

11.3 Methods of Public Procurement

The PPA, No. 8 of 2020, prescribes different methods of procurement, the choice of a particular method being influenced by the estimated value of the procurement, the nature of the procurement and the circumstances. Below are the methods in the PPA:[15]

a. Simplified bidding/quotations - quotations from several bidders are compared.

b. Open bidding – tender is advertised and bidding is open to participation on equal terms by all eligible bidders.

c. Limited or selective bidding – bids are invited from a list of pre-selected bidders. The tender is not publicly advertised.

d. Direct bidding/selection – a bid is received directly from a single bidder. There is no competition from other potential suppliers.

e. Force account – the procuring entity uses its personnel and equipment where the quantities of works involved are small, scattered in remote locations and qualified contractors are unlikely to tender for the works at reasonable prices. The method may also be used where works need to be carried out without disrupting on-going operations, and the quantities of work cannot be defined in advance.

f. Direct procurement/single sourcing – procuring entity goes directly to the supplier to procure goods or services; solicits goods or services from a single source. This method is used in situations where, inter alia, the procurement is of an urgent manner, there is only one entity capable of supplying the required goods or services or, for whatever reason, there is no reasonable alternative to using this method.

g. Community participation – the involvement of local communities in procurement in order to increase the utilisation of local know-how and materials, and to employ labor-intensive and other appropriate technologies.

h. Electronic reverse auction – an online real-time purchasing technique used by procuring entities to select the successful bidders. The bidders make presentations successively lowered bids during a scheduled period, and there is automatic evaluation of bids.

11.4 The Public Procurement Process

15. See for example http://tenderszambia.com/zambia_public_procurement_agency.php

The public procurement process starts with procurement planning, and goes through to advertisement of the tender, invitation to bid, evaluation of bids, award of contracts and implementation of contract. Three main phases of the process are pre-tendering, tendering and post-tendering.

11.4.1 Pre-Tendering

The pre-tendering phase consists of a needs assessment, planning and budgeting, definition of requirements and development of specifications. Transparency is critical during this phase because it is when potential bidders can seek information and assess the opportunities for bidding (World Bank, 2016).

11.4.2 Tendering

The evaluation and selection of bidders is done during the tendering phase, leading to the awarding of a contract. Once prospective bidders decide to bid for a contract, they need to comply with a variety of requirements in order for their bids not to be rejected. Since the requirements can create unnecessary difficulties for potential bidders, it is important to streamline the process and make it easily accessible to all bidders. Transparency and integrity are important during this phase, too. For example, during the opening of bids, there must be witnesses to ensure fairness and efficiency of the process (World Bank, 2016).

11.4.3 Post-Tendering

The management of a contract is as important as the bidding process, and procurement contracts must be managed with dispatch, transparency and sufficient safeguards to protect suppliers from arbitrary decisions and actions by the procuring entity. Procuring entities are protected from delays in the execution of contracts by performance guarantees. To protect suppliers, the guarantee amount should be regulated, and suppliers need to be paid on time, as delayed payments can hurt their cashflows, impair their ability to supply and put them at risk of bankruptcy (World Bank, 2016).

11.5 Public Procurement Planning

All procuring entities are obliged to plan their procurement to avoid emergency procurements and use of the wrong methods, and to ensure that the procurement plan is in line with approved Budget programmes. Further, similar goods, works and services must be procured together to reduce costs, and all annual procurement plans should be submitted to the Zambia Public Procurement Authority (ZPPA) and published. With procurement planning, the implementation of capital and other programmes can be more effective, resulting in improved service delivery.

11.6 Electronic Procurement

Digital tools can streamline public spending, make it more transparent and evidence-based, and make it more responsive to market conditions. In recent years, electronic procurement, or e-procurement, has gained momentum as more economies have recognised its benefits and moved to adopt digital services in their procurements. Most developing and developed economies worldwide have even adopted e-procurement systems as a matter of policy.

11.7 Electronic Government Procurement System

Through the Electronic Government Procurement System (e-GP), information and communication technologies, especially Internet-based ones, are used by governments in the management of relationships with suppliers and procurement of goods, works and services.

e-GP addresses the problems associated with procurement by:

a. Eliminates some manual processes; for example, tendering, bidding and notification may be undertaken electronically;
b. Centralised storage of bidding information reduces or eliminates movement of paper;
c. Eliminates or reduces costly vendor visits to the procuring entities;
d. Reduction in paper usage reduces harm to the environment; and
e. Geographical boundaries are eliminated.

The benefits of e-GP include:
a. Reduced cost to bidders;
b. Greater transparency through the automated publication of tenders and contract awards;
c. It makes monitoring and compliance easy;
d. It allows integration with stakeholders' systems;
e. Easier management of framework agreements;
f. Easier generation and sharing of management reports; and
g. Simplified publication of information to bidders, suppliers and the general public.

11.8 Corruption in Public Procurement

The table below lists examples of corrupt practices at each of the three stages of the procurement process.

Table 6: Examples of corrupt practices

Phase	Examples of types of corruption
Pre-Tendering	▪ Technical specifications tailored for a specific company ▪ Selection criteria not objectively defined or not established in advance ▪ Unnecessary demands for samples of goods and services ▪ Unjustifiable use of non-competitive procedures ▪ Abuse of non-competitive procedures on the basis of legal exceptions, such as contract splitting, abuse of extreme urgency and non-supported modifications
Tendering	▪ No public notice for the invitation to bid ▪ Evaluation and award criteria not announced ▪ Procurement information not made public ▪ Collusive bidding (cover bidding, bid suppression, bid rotation, market allocation) ▪ Exchange of gifts or promise of future/additional employment
Post-Tendering	▪ Abuses of the supplier in performing the contract, particularly in relation to quality, pricing and timing ▪ Substantial change in contract conditions to allow more time and/or higher prices for the bidder ▪ Product substitution, or sub-standard work or service

Source: Organisation for Economic Co-operation and Development, 2016

11.9 Conclusion

Public procurement is an essential component of PFM, as it involves the management of public resources, and there are key preconditions for an effective and well-managed public procurement system capable of safeguarding public resources in the acquisition of goods, works and services. Since public procurement is part of budget execution, efficient and effective procurement operations are an important factor in the successful implementation of the National Budget and realisation of development objectives.

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PUBLIC INVESTMENT MANAGEMENT

CHAPTER TWELVE

Public Investment Management

12.0 Introduction

Public investment supports the delivery of key public services through the construction of schools, hospitals, public housing and other social infrastructure. It also connects citizens and businesses to economic opportunities by providing economic infrastructure, such as airports, seaports, telecommunication networks, transport and power supply. Through the provision of both social and economic infrastructure, public investment is an important catalyst for economic growth.

A significant body of research underscores the positive relationship between investment in public infrastructure and economic productivity. For example, the International Monetary Fund[16] found that for advanced economies, an increase in investment spending of one percentage point of GDP increased output by about 0.4% in the same year and 1.5% after four years. The IMF concludes that the effect would be even higher in developing economies. However, public investment's economic and social impacts critically depend on its relevance and efficiency of implementation. Another study by the IMF[17] suggests that around 30% of the potential benefits of public investment are lost due to inefficiencies in the investment process and that the size of the efficiency gap shrinks as income rises, with developing economies facing a gap of over 40%, emerging markets facing a gap of 27% and advanced economies facing a gap of 13% on average. The study concludes that improvements in public investment management (PIM), including the strengthening of institutions that play key roles in the planning, Allocation and Implementation of public investments, can close up to two-thirds of the Public Investment inefficiency gap because countries with stronger PIM institutions have more predictable, credible, efficient and productive investments.

The following three parameters determine the level of efficiency in public investment:

a. Proper planning to ensure sustainability of investments across the public sector;

b. Prudent allocation of investments to ensure that they are made in the right sectors and projects; and

c. Implementation of projects within planned budgets and on time.

12.1 Managing Public Investments

While there is no universal standard process for PIM, the four phases and eight steps as set out below are the most important elements of the process.

12.1.1 Project Appraisal

The project appraisal phase has three (3) steps, namely investment guidance and preliminary screening, formal project appraisal and independent review of appraisal.

a. Investment guidance and preliminary screening – project proposals are screened to ensure that they meet the minimum criteria of consistency with the Government's strategic objectives. In Zambia, projects must be consistent with the policies and objectives set out in the National Development Plan (NDP).

b. Formal project appraisal – projects or programmes that meet the requirements of the first screening test are thoroughly scrutinised in terms of their costs and benefits or effectiveness. The projects proposed for financing also have to be evaluated for their social and economic value.

16. IMF, October 2014, World Economic Outlook
17. IMF, 2015, Make public investment more efficient

c. Many countries with sound public investment strategies have set minimum rates of economic returns on projects in both the economic and social sectors. The quality of ex-ante project evaluation depends very much on the quality of the analysis which, in turn, depends on staff's project evaluation skills.

d. Independent review of the appraisal – where departments and ministries other than the ministry responsible for finance and national planning undertake project appraisals, independent peer reviews may be necessary in order to check any subjective and self-serving biases in the evaluation.

12.1.2 Project Selection

Project selection is the prioritisation of projects based on their expected economic rates of return. After prioritisation, budgetary resources are then allocated based on the ranking of the economic rates of return of the projects until the total capital investment budget is exhausted.

Appraisal and selection of public investment projects should be appropriately linked to the Budget cycle, even though the project evaluation cycle runs on a different timetable.

12.1.3 Project Implementation

Project designs should include precise organisational arrangements and a realistic timetable to ensure the capacity to implement the project. The project implementation stage phase has two steps, namely project adjustment and facility operation, as explained below.

a. Project adjustment – the funding review process should have some flexibility to allow changes in the disbursement profile to take account of changes in project circumstances. Each funding request should also be accompanied by an updated cost-benefit analysis and a reminder to project sponsors of their accountability for delivering the benefits.

b. Facility operation – asset registers should be maintained and asset values recorded. Ideally, countries should require their operating agencies to compile balance sheets on which the value of assets created through new fixed capital expenditure can be maintained.

12.1.4 Project Evaluation

Project evaluation is an ex-post phase. In other words, it is undertaken on completed projects. This phase focuses on comparing the project's outputs and outcomes with the objectives set in the project design.

It is good practice for evaluation criteria to be built into the project design and for lessons learnt from such evaluations to contribute to improved project design and implementation.

12.2 Public Private Partnerships in Public Investments

When used effectively, Public-Private Partnerships (PPPs) can help governments to make substantial savings on costs of providing goods and services. In PPP, a private firm finances, designs, builds, operates and maintains an asset, and charges user fees on it, gets periodic payments from a government over the life of the contract or a combination of the two.

Many PPPs offer significant advantages over traditional public procurements in terms of mobilising private financial resources and know-how, promoting the efficient use of public funds and improving the quality of service. Although private financing is typically more expensive than government borrowing, a well-designed PPP contract can generate efficiencies that more than offset the higher cost of private capital by bundling the design, construction and operation of an asset to incentivise the efficient, timely construction of high-quality

assets, and maintenance of, and cost recovery from, those assets over time.

Not all investment projects can be effectively delivered using PPPs, as the benefits of PPPs mainly arise from a government's ability to allocate risks efficiently between public and private parties to ensure the right incentives and reduce overall project costs. To do so, the outputs and quality of services must be predictable and measurable for a project's duration. However, PPPs in the information technology (IT) or health sectors can be challenging, as technological change is too rapid in relation to the typical length of a PPP contract. Further, PPPs require firm legal, policy, appraisal, approval and monitoring arrangements to negotiate contracts and ensure that the private partners meet their obligations.

12.3 Strengthening of Public Investment Management in a Global Perspective

It is generally acknowledged that the potential gains of improved public investment management are substantial. However, strategies for improving the investments differ from one country to another. It is possible to identify seven widely accepted practices as presented below.

a. Strengthening of medium-term fiscal and budgetary frameworks to improve investment planning and co-ordination across levels of government.

b. Making investment flows less pro-cyclical and more fiscally sustainable in the longer term. The use of structural balance limits or investment flows, coupled with firm ceilings on overall indebtedness.

c. More rigorous and transparent arrangements for investment project appraisal, selection and management, including the development of standardised methodologies and central support functions for project appraisal and risk analysis, as well as publishing of criteria for project selection.

d. Having in place standardised procedures for project adjustments and applying them systematically and, as needed, allowing for fundamental reviews of projects' rationales, costs and expected outputs.

e. Instituting of ex-post evaluations of projects to draw lessons for design and implementation of future investment projects.

f. Protecting investment expenditures in ministry and agency budgets by ensuring that project implementation is budgeted for over its whole duration, and that resources are released based on a phased implementation plan.

g. Strengthening of the management of PPPs based on value-for-money reviews by a dedicated PPP unit guided by clear criteria for choosing between PPPs and traditional financing. To minimise fiscal risks, PPP commitments should be systematically monitored, with overall limits set on the accumulation of PPP liabilities.

Zambia has a well-defined PPP legal and policy framework that can reduce the fiscal burden of the Government in financing development projects and deliver significant returns for the well-being of citizens. Parliament is responsible for ensuring that PPPs are within the confines of the law and deliver sustainable development at local levels without leaving anyone behind.

12.4 Public Investment Management in Zambia

While the responsibility for providing guidance for, and monitoring of, public investment process formally rests with the ministry responsible for finance and national planning , sector ministries have the power to plan and implement sectoral investment projects[18]. Thus, the process of screening and appraising project proposals is the exclusive responsibility of MPSAs without the involvement of, or guidance by, the Planning and Economic Management Division under the ministry responsible for finance and national planning .

The investment plans and projects of MPSAs are, in principle, guided by the NDP, MTBP and the Annual Budget. However, the weak vetting system in the ministry responsible for finance and national planning , and within the sectors often leads to the implementation of projects that are delinked from the national development planning and multi-year budgetary frameworks, and ones that often do not achieve the desired development outcomes (See, for example, the situation analysis in the National Planning and Budgeting Policy of 2014). Other challenges relate to the absence of broad principles, procedures and institutional responsibilities for guidance towards

more efficient and effective investment management, as well as unpredictable funding for capital projects that often require multi-year funding. Since the availability of resources determines whether an investment will be made or not, many projects stall before completion or experience delays.

The Planning and Budgeting Policy is aimed at addressing the weaknesses in the planning and budgeting framework by strengthening the institutional framework and human capacities at the ministry responsible for finance and national planning, as well as integrating the national planning and budgeting process across sectors and at all three operational levels, namely the national, provincial and district levels. Alongside better integration of the planning and budgeting process, and the creation of stronger links between the national planning framework and sector plans, the policy also significantly strengthens the national M&E system.

Section 24 of the National Planning and Budgeting Act, No. 1 of 2020, requires the Ministry of Finance to appraise major projects and programmes before being included in a national development plan, national budget and medium term budget plan. The Ministry is further required to issue guidelines for the appraisal of major projects and programmes, and to publish in the Gazette a schedule of approved appraised projects.

12.5 State-Owned Enterprises

In its quest to enhance revenue collection, grow the economy and develop the country, the Government decided to invest in commercial enterprises commonly referred to as parastatal companies or state-owned enterprises (SOEs). In January 2014, the ministry responsible for finance incorporated a holding corporation called Industrial Development Corporation (IDC) as a special purpose vehicle for investments and management of the Government's commercial interests. The IDC is wholly owned by the Government through the Minister responsible for finance under the Minister of Finance (Incorporation) Act, Cap. 349 of the Laws of Zambia.

The IDC was established to create and maximise long-term shareholder value as an active investor and shareholder of successful SOEs, as well as to undertake industrialisation and rural development activities by creating new industries.

Functionally, the IDC is aligned to portfolio ministries for policy direction while, commercially, it operates as a semi-autonomous entity with a Board of Directors comprising public sector and private sector members. Despite this setup, it is a public asset subject to audit by the Auditor-General and Parliamentary oversight through the Committee on Parastatal Bodies. Its investment and returns are components of the national fiscus and are included in the planning and budgeting framework of the Government.

Part V of the Public Finance Management Act, No.1 of 2018, details the required financial management related controls for SOEs.

12.6 Parliamentary Monitoring of Capital Investment Projects

Since the capital budgets of most developing countries, aside from grants from development partners, are loan-financed, investment projects must be screened and appraised for their medium-term to long-term employment and revenue-generation potential.

Parliaments can play an important role in examining investment plans and proposals during the Budget scrutiny and approval stage, monitoring the effectiveness of project implementation during the Budget execution stage, and evaluating project impact on economic growth and revenue generation after project completion.

Parliamentary oversight over the Executive's capital budget implementation is important to ensuring transparency, accountability and value for money. Hence, through their relevant Committees, many Parliaments, including the Zambian Parliament, may conduct field studies to monitor progress in project implementation and utilisation of appropriated funds.

18. World Bank, 2014, p. 4

12.7 Conclusion

Public investment is important to the promotion of economic growth and poverty reduction. Further, there are three phases in a typical public investment process, from planning to the final evaluation of the impact of a given investment. To assure effective and efficient PIM, it is important to create strong institutions with a clear delineation of roles and responsibilities, and the necessary technical capacity for undertaking effective project appraisal, selection, implementation and post-implementation impact evaluation. SOEs and commercial enterprises in partnership with the private sector are part of the overall framework of public investment.

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ROLE OF SUPREME AUDIT INSTITUTIONS

CHAPTER THIRTEEN

Role of Supreme Audit Institutions

13.1 Introduction

Auditing is an objective examination and evaluation of a company's financial statements. It refers to financial statement audits or an objective examination and evaluation of a company's financial statements – usually performed by an external third party. Audits can be performed by internal parties and a government entity, such as the Controller of Internal Audit.

13.2 Types of Audits

In Government systems, there are two (2) main types of audits namely internal and external audits.

13.2.1 Internal Audits

Internal audits are performed by the employees of an institution. These audits are not distributed outside the institution as they are prepared for the use of management and other internal stakeholders. Internal audits are used to improve decision-making within Ministries, Provinces, and Spending Agencies (MPSA) by providing managers with actionable items to improve internal controls. They also ensure compliance with laws and regulations and maintain timely, fair, and accurate financial reporting. Management teams can also utilize internal audits to identify flaws or inefficiencies within the company before allowing external auditors to review the financial statements.

13.2.1.1 The Role of the Internal Audit Function in PFM

Firstly, we need to appreciate the internal audit function and understand where the Office of the Controller of Internal Audits derives its powers from. The function and mandate of the Office of the Controller of Internal Audit is derived from Sections 15, 16, 17 and 18 of the Public Finance Management Act No. 1 of 2018 which provides for the maintenance of a system of internal audit. The Office's mission is to provide assurance to management that resources are economically, efficiently and effectively utilised in a transparent manner and its core values include: Professionalism, Integrity, Independence, Confidentiality, Continuous Professional Development and Competency. Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The objectives of the Office of the Controller of Internal Audit include the following:

1. To evaluate financial and operational systems/processes for effectiveness and adequacy of internal controls and provide advice and guidance on control aspects of new policies, systems, processes, and procedures.
2. To verify the existence of government assets and recommend improvements to management to ensure that proper safeguards are maintained to protect them from loss and possible fraud.
3. To determine the accuracy of financial transactions.
4. To determine the level of compliance with government policies, laws, contracts and procedures.
5. To evaluate the accuracy, effectiveness, and efficiency of the MPSA's electronic information and processing systems.
6. To determine the effectiveness and efficiency of MPSAs in accomplishing their objectives and identify opportunities for cost savings.
7. To provide an advisory service to Controlling Officers and other stakeholders.
8. To provide administrative support on the operations of the Audit Committees in the MPSAs.
9. To undertake any other task or assignment to further the achievement of the above objectives.

13.2.1.2 Why is internal audit important?

An internal audit is essential to maintain operational efficiency and financial reliability and to safeguard the assets. It provides independent assurance that an organisation risk management, governance, and internal control process are operating effectively.

Internal auditor looks at the discrepancies between operational process and what the processes are designed to do. If such discrepancies are found, they advise the management on process to implement for improvement. Let's look at seven reasons why internal audit is important and its purpose in keeping your organization compliant with the common framework and regulations:

1. **Increase Productivity**: Internal audit is an objective assurance and consulting activity designed for adding value and improves business operation. Internal audit can help an organization accomplish its strategic objectives by bringing a systematic, discipline approach to evaluating and improving the effectiveness of risk management, control and governance process. By continuously monitoring and reviewing the organization processes, internal auditor can identify the weaknesses in controls and make recommendations to improve the efficiency and effectiveness of these processes. They also help to an organization to be dependent on processes rather than people.
2. **Evaluate Risk and Protect the Assets:** A regular internal audit assesses an institution's controls and help to uncover evidence of fraud, help to identify any gaps in the environment and allow for a remediation plan to take place. Internal audit program will help an institution to track and document any changes that may have been made to the systems and ensures that there is prompt mitigation of any found risks.
3. **Quality Control:** Internal auditors help to expose how well the designed system and process are working and keep the institutional goals on track by providing consultation on how to improve those systems and processes when necessary.
4. **Independent and Unbiased Insight:** Internal audit provides an unbiased view into how effective the internal controls of an institution are. If an organization has limited resources and they are unable to setup an independent audit team, they could cross-train employees to audit each other's departments.
5. **Good Corporate Governance:** Internal audits also evaluate the institution's corporate governance and accounting processes. They ensure compliance with laws and regulations, accurate and timely financial reporting and data collection. They also help maintain operational efficiency by identifying problems and correcting lapses before they are discovered in an external audit.

13.2.2 External Audits

External audits are performed by external organizations and third parties. External audits provide an unbiased opinion that internal auditors might not be able to give. External financial audits are utilised to determine any material misstatements or errors in a company's financial statements. When an auditor provides an unqualified opinion or clean opinion, it reflects that the auditor provides confidence that the financial statements are represented with accuracy and completeness. External audits are important for allowing various stakeholders to confidently make decisions surrounding the company being audited. The key difference between an external auditor and an internal auditor is that an external auditor is independent. It means that they can provide a more unbiased opinion rather than an internal auditor, whose independence may be compromised due to the employer-employee relationship.

There are many well-established accounting firms that typically complete external audits for MPSAs in Zambia. However, in accordance with the provisions of Article 250 of the Constitution of Zambia (Amendment) Act No. 2 of 2016, the Local Government Act No. 2 of 2018, the Constituency Development Fund Act No.11 of 2018 and the Public Finance Management Act No.1 of 2018, the main external audit institution mandated to carry out audits is the Office of the Auditor General.

13.2.2.1 Role of Supreme Audit Institutions

There is a growing recognition of the importance of Supreme Audit Institutions (SAIs) in ensuring accountability and transparency in public financial management. This fact is attested to by the increased support of development partners towards such bodies in several developing or middle-income countries, including Zambia.

The Constitution of Zambia establishes the Auditor-General's Office as the supreme audit institution in Zambia, mandating the office to audit the accounts of all institutions financed from public funds and ascertain that money appropriated by Parliament or raised by the Government has been applied to the purposes for which it was appropriated, and expended economically, efficiently and effectively, and in conformity with the authority that governs it. Therefore, value-for-money audits, or performance audits, that focus on systems, results or feedback from society, the media and citizens. Performance auditing is an important building block to more accountable and responsive governance of public resources. In addition to performance audits, SAIs conduct compliance and financial audits in line with International Standards of Supreme Audit Institutions (ISSAIs).

13.2.2.2 International Organisation of Supreme Audit Institutions

The International Organisation of Supreme Audit Institutions (INTOSAI) is an umbrella body, created in 1982, for the external Government audit community. It is a non-governmental organisation with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations.

INTOSAI has a management committee whose three main objectives are to:

a. Promote the role and mission of National Audit Institutions (NAIs).

b. Develop and strengthen co-operation among NAIs.

c. Promote the exchange of knowledge and experiences among NAIs.

The mission of INTOSAI is to increase co-operation among SAIs worldwide through sharing of experiences and exchanges related to quality management.

13.2.2.3 African Organisation of Supreme Audit Institutions

The African Organisation of Supreme Audit Institutions (AFROSAI) is the African branch of INTOSAI. The African Organisation of Supreme Audit Institutions – English (AFROSAI-E) is a sub-group of AFROSAI comprising SAIs from English-speaking countries.

AFROSAI-E facilitates information-sharing among SAIs in Africa and supports member SAIs to execute their mandates to International Standards for Supreme Audit Institutions (ISSAIs) in order to make a difference in the lives of citizens.

The main role of AFROSAI is to develop and promote best practices and facilitate sharing of experiences in the auditing of public finances among SAIs in African states. In this regard, it undertakes systematic studies on the auditing of public finances, organises training courses for auditors and collaborates with INTOSAI, its regional working groups, and other organisations and institutions specialised in auditing public finances.

13.2.2.4 The Role of SAIs in Combating Corruption

SAIs are national watchdog agencies responsible for auditing the management of government revenue, expenditure and reporting systems to ensure that resources are used as directed by parliaments. Therefore, they are not specialised anti-corruption agencies; they are not expressly mandated to investigate corrupt activities.

13.2.2.5 INTOSAI Auditing Standards

The auditing standards of INTOSAI focus on the following:

a. the development and application of appropriate tools;

b. encouragement of co-operation among NAIs; and

c. the development and strengthening of exchanges and training.

13.2.2.6 The International Standards of Supreme Audit Institutions (ISSAIs)

ISSAIs are the authoritative international standards on public sector auditing. Therefore, their purposes are to:

a. Enhance transparency of the audit process;

b. Ensure that audits conducted are of high quality;

c. Enhance the credibility of audit reports to users;

d. Specify auditors' responsibility for the other parties involved; and

e. Define the different types of audit engagements and the related concepts that provide a common language for public sector auditing.

Transparency is an important pillar in auditing, especially in interactions between auditors and auditees. In this regard, auditors must communicate clearly and honestly with auditees and provide all information needed for an audit to be conducted properly. Therefore, discrimination based on language, sex, race or religious beliefs must be avoided.

Transparency is also necessary in communicating the results of an audit back to the auditee and other SAIs that may participate in such audits. This practice encourages openness and fairness among all parties involved. To this end, INTOSAI developed guidelines to support SAIs and individual auditors in applying the ISSAIs in financial performance and compliance audit processes.

Box 4: Role of Supreme Audit Bodies

There is growing recognition of the importance of supreme audit institutions in ensuring accountability and good governance.

The Constitution of Zambia provides for the National Audit Office to audit the accounts of all institutions financed from the public funds.

INTOSAI was created in 1982 to bring together NAIs from all regions of the world.

AFROSAI is the African branch of INTOSAI, while **AFROSAI-E** is the sub-group of English-speaking African NAIs.

The main role of AFROSAI is to promote sharing of ideas and experiences in the field of auditing among African SAIs.

SAIs are national watchdog agencies responsible for the auditing government revenue and expenditure.

ISSAIs are authoritative international standards on public sector auditing that enhance transparency in the audit process, ensure a high quality of audits and enhances the credibility of the audit reports for users.

13.3 Conclusion

Supreme Audit Institutions play a crucial role in ensuring accountability and transparency in public financial management. SAIs are responsible for auditing the management of government revenue, expenditure and reporting systems to ensure that resources are used as directed by parliaments.

Auditing is crucial to ensure that MPSAs represent their financial positioning fairly and accurately and in accordance with accounting standards.

Internal audit is not a compliance burden but a necessity for effective and healthy growth of the institution. It can be re-emphasised that the role of an internal audit in PFM is very key as it provides assurance that an entity or institution's risk management, governance, and internal control processes are operating effectively. Moreover, internal audits also prove to be a defense mechanism in detecting violations of laws, regulations, and provisions of contracts and agreements.

External audits are crucial to ensure that financial statements have been prepared accurately to not misrepresent the amount of taxable income of an institution. It is key for sound and effective functioning of government and to ascertain that the benefit of public funds being used, reach the lowest strata of society and to every individual, audit is therefore an indispensable tool. It helps secure accountability of the Executive to the Parliament and towards the public in general. The Legislature can exercise control over the Executives and verify that the public resources have been utilised responsibly, for the purpose intended and funds raised through various sources like taxes reach government fully.

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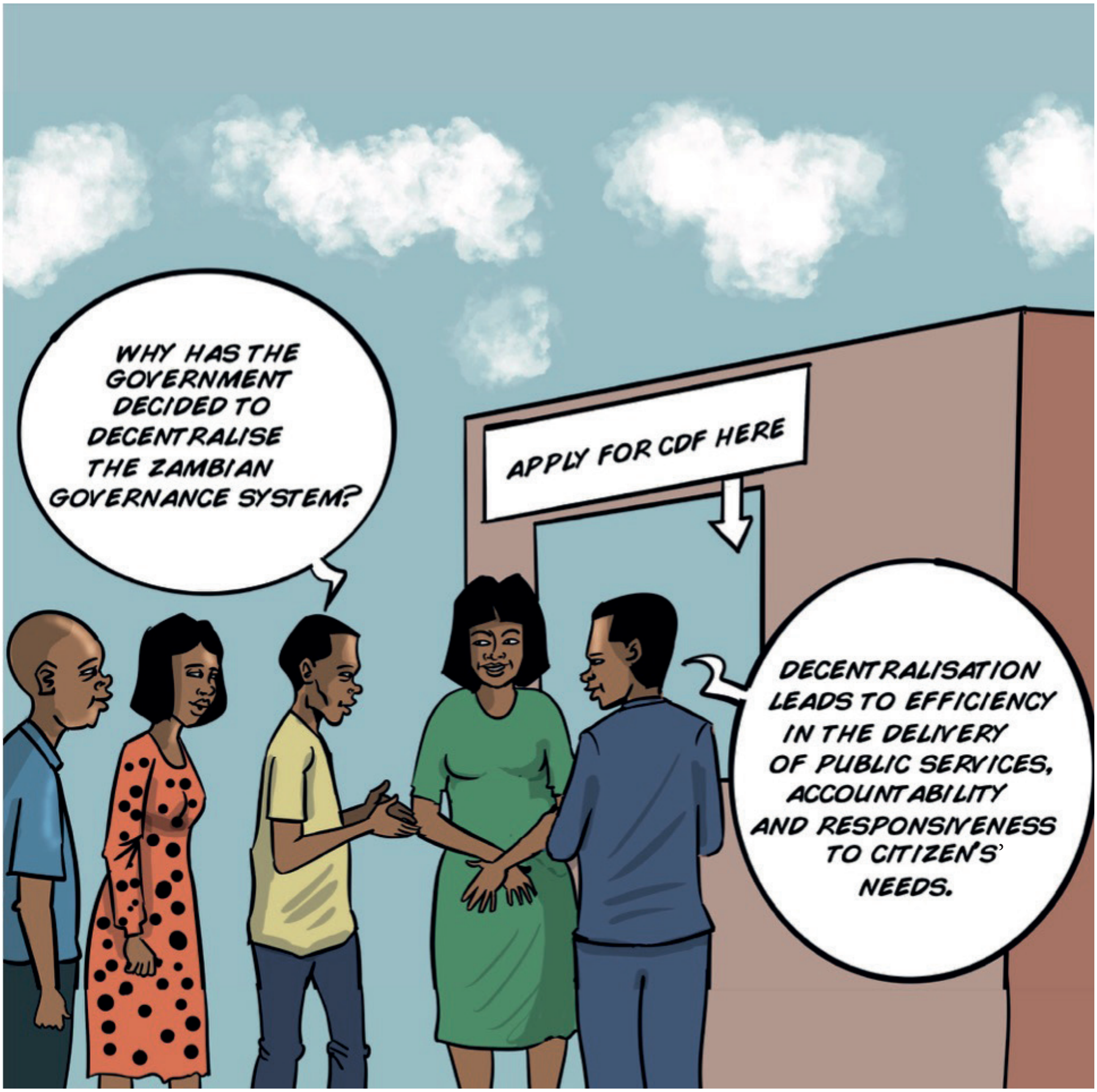
FISCAL DECENTRALISATION, CENTRAL GOVERNMENT AND LOCAL GOVERNMENT



CHAPTER FOURTEEN

Fiscal Decentralisation, Central Government and Local Government

14.0 Introduction

This chapter explains fiscal decentralisation, what it seeks to achieve, its main building blocks and the legal framework required for it to thrive. The objective is to help Members of Parliament and Staff to appreciate the Government's decision to decentralise the Zambian governance system, and what the relationship between the Central Government and the local governments should be.

14.1 Decentralisation

The concept of decentralisation, which denotes the transfer of power and resources from the Central Government to sub-national governments[19] has been a topical issue in the development agenda of most developing and transitioning countries over the past decades. This can be attributed to the widely held view that decentralising roles and responsibilities from the Central Government to lower levels of governance leads to efficiency, accountability and responsiveness to citizens' needs in the delivery of public services.

The ***Constitution of Zambia (Amendment) Act No. 2 of 2016*** provides for a two-tier system of devolved governance consisting of the national and local governments, establishes the autonomy of each level of government, and spells out the concurrent and exclusive functions of the national, provincial, and local governments[20].

Box 5. provides examples of some of the concurrent and exclusive national, provincial and local government functions.

Box 5

Exclusive National Functions

a. Elections
b. Foreign and International Affairs
c. Defence, Security, Maintenance of Law and Order
d. Citizenship and Immigration

Exclusive Local Government Functions

a. Pollution Control
b. Building Regulations
c. District Planning

Concurrent National and Provincial Functions

a. Animal Control and Diseases
b. Health Services
c. Consumer Protection
d. Administration of Justice

19. Eaton, K., Kaiser, K. & Smoke, P., (2010) The Political Economy of Decentralization Reforms: Implications for Aid Effectiveness. Washington, D.C.: The World Bank.
20. Functions under provincial administration are 'deconcentrated' functions of the Central Government. Hence, they remain functionst of the Central Government. On the other hand, functions under local government, are 'devolved'. De-concentration refers to the transfer of functions to lower-level Central Government authorities, or to local authorities that are upwardly accountable to the Central Government (Ribot 2002).

14.1.1 Why Fiscal Decentralisation?

Fiscal decentralisation is the devolution of budget functions from the Central Government to sub-national governments[21] or the transfer of expenditure and revenue responsibilities from the Central Government to lower levels of government[22]. The overall objective of fiscal decentralisation is to create an optimal fiscal environment that allows both the central and sub-national governments to provide public goods and services in line with the subsidiarity principle, which provides that roles and responsibilities must be assigned to the lowest tier of government that can efficiently and effectively administer them. The assumed benefits of fiscal decentralisation can be summarised as follows:

a. Improved efficiency by strengthening the links between the mix of services with the citizens' demands and needs, being closer and more responsive to the local preference (matching of local preferences);
b. Improved financial accountability by bringing the government and decisions closer to the people in terms of options for voice, influence, information exchange, control, monitoring etc.; and
c. Improved effectiveness by improving the likelihood of strengthening competition in public service provision, mobilising citizens' contribution, innovation, etc.[23]

14.1.2 The Building Blocks of Fiscal Decentralisation

A design of inter-governmental fiscal relations[24] that ensures predictable, stable and fair revenue streams for the performance of sub-national functions is vital to a fiscal decentralisation framework. To this end, a clear set of rules and procedures for the fiscal interrelationship between the Central Government and local governments are required. It must be noted that there is no single perfect model of a fiscal decentralisation architecture, because each country has a unique combination of political, historical, institutional and ethnic circumstances that affects the motivation for decentralisation.

The building blocks of fiscal decentralisation are categorised into four distinct parts, namely: assignment of expenditure roles and responsibilities, revenue assignment, transfers, and borrowing.

14.1.3 Assignment of Expenditure Roles and Responsibilities

The first step in designing an effective inter-governmental fiscal relation is the identification of expenditure responsibilities for the provision of public goods and services to the different levels of government. This step is required for the estimation of the expenditure needs of the two levels of government. A coherent approach to this should be based on the subsidiarity principle[25]. This is consistent with the decentralisation theorem, which states that *"**each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalise the benefits and costs of such provision.**"* [26].

Once the expenditure roles and responsibilities of the public sector are identified, the next steps are to address the following questions:

a. What expenditure functions should be exclusive to sub-national governments?
b. What expenditure functions should be exclusive to the Central Government?
c. What expenditure functions should be concurrent, that is,, overlapping between the Central Government and sub-national governments?

For concurrent functions, unambiguous clarity must be given to who is responsible for what aspects of the formulation, financing and execution of a particular expenditure programme. In many cases, Central Governments want to retain a higher level of discretion and control, resulting in a lack of clarity in the discretion that local governments can exercise, and unpredictability in the assignment of the expenditure authority to local government[27].

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21. In the case of Zambia, the new constitution ACT, 2016, recognises two tiers of government: central and local government. Sub-national government in this context refers to the two lower tiers of government, that is, Provincial and Local Government.
22. Roy, B. (2008), The Pillars of Fiscal Decentralization. https://www.caf.com/media/3961/200807Bahl.pdf.
23. See for example Steffensen, Fiscal Decentralisation and Sector Funding Principles and Practices, 2010
24. In this chapter, "inter-governmental fiscal relations" and the "fiscal decentralisation architecture" are used interchangeably
25. The subsidiarity principle basically states that nothing should be done by a larger and more complex organisation which can be done as well by a smaller and simpler organisation. In other words; any activity which can be performed by a more decentralised entity.
26. Oates, W. (1972) Fiscal Federalism. New York: Harcourt Brace Jovanovich, Inc.
27. Norris, E.D. (2006) Comparative Economic Studies. The Challenge of Fiscal Decentralization in Transition Countries. [Online] 48. p.100-131. Available from: http://www.palgrave-journals.com/ces/journal/v48/n1/pdf/8100063a.pdf

Clarity in the assignment of expenditures is of crucial importance in ensuring accountability at each tier of government for the effective execution of functions. Ignoring this important aspect in the design of inter-governmental fiscal relations can weaken and undermine the efficiency of public expenditures.

14.1.4 Revenue Assignment

Once expenditure functions have been assigned, resources must be mobilised and assigned commensurate with match the assigned responsibilities. Local government revenues consist of transfers from the Central Government and revenues raised internally. This is in adherence to the key principle that funds follow functions.

Designing an appropriate mix of revenue assignments depends on several factors. Fedelino and Ter-Minassian argue that taxes in local authorities can lead to tax competition between local governments to attract businesses and affluent tax payers, resulting in revenue losses or tax evasion and, ultimately, fiscal imbalances across local authorities. The two authors also argue that, ultimately, the assignment of revenue responsibilities should not erode the Central Government's fiscal role of redistribution and fostering macroeconomic stability. This means that taxes that significantly influence economic fundamentals such as inflation should be assigned to the Central Government.

The available literature[28] provides useful rules and guidelines for assigning revenue or tax responsibilities, as summarised below.

a. Taxes characterised by a large tax base, such as Income Tax, must be a function of Central Governments, partly because such taxes are suitable for economic stabilisation.

b. Natural resource taxes are better left to Central Governments to avert horizontal disparities (disparities across local authorities) in terms of the revenue bases, and because sub-national governments may not have the capacity to manage such volatile taxes effectively.

c. Tax bases that are distributed highly unequally between jurisdictions should be assigned to central government.

d. Generally, immobile taxes are better assigned to lower tiers of government (i.e., local government). For this reason, land and property taxes are usually assigned to local authorities.

e. Benefit taxes and user charges can be administered by any tier of government with comparative advantage.

The complexity of administering certain taxes can also be used as a reasonable criterion for a revenue assignment framework. For example, taxes that are complex to administer, such as Value Added Tax (VAT), are better off left for Central Governments.

14.1.5 Transfers[29]

In most countries, especially those where large portions of expenditure functions are devolved to lower tiers of governance, inherent financial imbalances across tiers of government are usually common because Central Governments have taxing and borrowing powers that local authorities usually do not have, and that creates the necessity for transfers from Central Governments to the sub-national governments to supplement local revenues for effective service delivery. Transfers can also be used for equalising horizontal fiscal disparities among sub-national governments. These factors are very important, and should be considered in the design of inter-governmental fiscal transfers.

The design of inter-governmental transfers should create incentives for efficient and effective local revenue mobilisation[30]. In several developing and middle-income countries, performance-based grant systems have been introduced as an incentive for local governments to improve local revenue mobilisation, accountability and service delivery[31]. To facilitate effective planning and budgeting at the lower levels of a government, transfers from the central government must be designed in a manner that guarantees stability and predictability. This can be achieved by administering transfers from revenue sharing on specified national tax types, or a share of total central government taxes, according to a predetermined formula.

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28. Fjeldstad, O. (2001) Inter-governmental fiscal relations in developing countries. A review of issues. [Online] Available from: http://www.cmi.no/publications/file/871-intergovernmental-fiscal-relations-in-developing.pdf.; Alm, J. & Boex, J. (2002) An Overview of Intergovernmental Fiscal Relations and Subnational Public Finance in Nigeria. [Online] Available from: http://icepp.gsu.edu/files/2015/03/ispwp0201.pdf
29. The term "transfers" is used in this context to cover a diverse range of financing instruments available to sub-national governments, including but not limited to grants and revenue sharing.
30. Revenue mobilisation in this context refers to all activities involved in securing new and additional revenues for the local authority as well as making use of, and maximising, existing revenues.
31. See for example UNCDF (un dated) Performance-Based Grant Systems – Concept and International Experience

Apart from revenue sharing, transfers can also take the form of grants, with the most common ones being:

a. Unconditional grants, which are general-purpose transfers aimed at addressing vertical imbalances;

b. Conditional grants, whose usage is tied to some conditions, and are usually designed to stimulate spending on expenditure items that Central Governments consider national priorities; while the name of the grant is the same in many countries, the associated conditions vary vastly depending on the motivation; and

c. Equalisation grants, which help to address horizontal imbalances; through these grants, authorities with greater fiscal needs receive more from Central Governments than those with relatively less fiscal need; in other words, the grants equalise the abilities of local governments to provide public goods and services (e.g., the Local Government Equalisation Fund [LGEF] in Zambia).

Overall, the spirit behind inter-governmental fiscal transfers is that sub-national governments need to be granted adequate resources to undertake the expenditure responsibilities assigned to them whilst upholding the principles of accountability.[32]

14.1.6 Borrowing

Borrowing can have a disruptive impact on development, and giving sub-national governments uncontrolled authority to finance their functions through borrowing can be a major source of fiscal risks. Of particular concern to a central government must be the need to safeguard macroeconomic stability.

A common approach to controlling borrowing by sub-national governments includes prudent borrowing contingent on capital markets' willingness to provide financing based on an assessment of the borrower's creditworthiness. This approach precludes Central Governments from having control over local authorities' debt. Another approach is to regulate local authorities' borrowing powers by imposing borrowing limits. This approach gives Central Governments the leverage to ensure that the aggregate public debt is kept within sustainable limits. For developing countries like Zambia, satisfactory results are more likely to be achieved through the second approach, which is premised on Central Government oversight and control. This is on account of reasons that include the following:

a. The capital market is not fully developed to guarantee prudential lending to local authorities regarding their ability to pay back;

b. There are questions about the moral hazards[33] associated with easier ways of raising financing at the expense of strengthening local governments' revenue mobilisation efforts;

c. Some forms of debt accumulated by local authorities, such as through non-fulfilment of statutory and contractual obligations, is not necessarily through direct borrowing; and

d. The Central Government's capacity to handle the fiscal risks associated with uncontrolled borrowing by local authorities is limited or would only be feasible at a great cost.

14.2 Legal and Regulatory framework

For fiscal decentralisation to yield the desired quality service delivery and development outcomes, it must be anchored on a strong legal framework. This requires the putting in place of a comprehensive legal and institutional framework to prescribe the roles of various actors in a manner that supports a well-defined fiscal decentralisation architecture. The legal framework must eliminate ambiguities associated with a lack of well-defined criteria in assigning functions and powers across regional and local governments.

While the Constitution of Zambia provides for devolved governance, in practice, such high-level declarations are only manifest when there is a more detailed framework of governance, practice and transparency to bring it into effect.

14.3 Conclusion

Fiscal decentralisation provides a real opportunity to provide public goods and services more efficiently and effectively, and strengthen accountability in utilisation of resources. However, successful fiscal decentralisation requires a robust legal, regulatory and administrative system for Central Government-local government fiscal relations, as well as the existence of sound public expenditure management principles at both the central

32. Fjeldstad, 2001.
33. The local authorities may take more risk of borrowing beyond their capacities to pay knowing very well that the Central Government would bail them out should they fail to service the debt.

government and sub-national levels. There are four important building blocks to fiscal decentralisation, namely the assignment of expenditure roles and responsibilities, the assignment of revenue roles and responsibilities, inter-governmental fiscal transfers and sub-national government borrowing. Assignment of revenue responsibilities should always come after the assignment of functions (i.e., funds follow function).

Box 6: Fiscal Decentralisation, Central Government, Parliament and Local Government

The concept of decentralisation denotes the transfer of power and resources from the central government to sub-national governments. This can be attributed to the widely held view that roles and responsibilities must be decentralised from the central government to lower levels of government.

The Constitution of Zambia provides for a two-tier system of devolved governance. The two tiers are the National Government and the local governments.

Fiscal decentralisation denotes the devolution of budget functions from the central government to sub-national governments[34], and involves the transfer of expenditure and revenue responsibilities from the central government to lower levels of government[35].

A design of inter-governmental fiscal relations[36] that ensures predictable, stable and fair revenue streams for the performance of sub-national functions is vital to a fiscal decentralisation framework. To this end, a clear set of rules and procedures for the fiscal interrelationship between the central government and local governments is required. Once expenditure functions have been assigned, resources must be sourced to match the assigned responsibilities.

Local government revenues consist of transfers from Central Governments and revenues raised by local governments, themselves.

Borrowings can negatively impact development and avail minimal gains, which can be a major source of fiscal risks if sub-national governments are given uncontrolled authority to finance their functions through borrowing and central government are precluded from having control over local authorities' debt.

For fiscal decentralisation to yield the desired quality service delivery and development outcomes, it must be anchored on a strong legal footing.

The legal framework must eliminate ambiguities associated with a lack of well-defined criteria in the assignment of functions and powers across regional and local governments.

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34. In the case of Zambia, the new constitution ACT, 2016, recognises two tiers of government: central and local government. Sub-national government in this context refers to the two lower tiers of government, that is, Provincial and Local Government.
35. Roy, B. (2008), The Pillars of Fiscal Decentralization. https://www.caf.com/media/3961/200807Bahl.pdf.
36. In this chapter, "inter-governmental fiscal relations" and the "fiscal decentralisation architecture" are used interchangeably.

ANNEX 1: GLOSSARY OF TERMS

A

Accountability – The responsibility of individuals and or committees for performing their duties conscientiously and with integrity.

Accounting Standards – Authoritative standards for financial accounting and reporting developed through an organised standard-setting process and issued by a recognised standard-setting body.

Accrual Accounting – Accounting method that records income and expenses when they are incurred, regardless of when cash is exchanged. Accrual accounting also records assets and liabilities.

Accrual – Any individual entry recording revenue or expense in the absence of a cash transaction.

Activity-Based Budgeting (ABB) – A method of budgeting in which costs are allocated to categories of activity using an allocation basis that ideally reflects the real consumption of resources by those activity categories.

Aggregate Fiscal Discipline – The Government's actions towards ensuring that the overall levels of revenue collection and spending are consistent with targets for the fiscal balance, and do not generate unsustainable levels of public debt.

Aggregate Fiscal Policy – The Government's overarching objectives for the budget deficit, debt and other relevant fiscal aggregates.

Allocative Efficiency – A situation in which public resources are allocated in accordance with agreed strategic priorities.

Appropriation Act – An Act of Parliament that gives the Executive authority to collect revenues and incur expenditures in accordance with approved estimates of revenue and expenditure.

Appropriation-in-Aid- means revenue assigned to and collected by public bodies which they are permitted by the Treasury to appropriate against expenditure approved by Parliament.

ASYCUDA – The United Nations Conference on Trade and Development's (UNCTAD's) Automated System for Customs Data (ASYCUDA), a computerised customs management system that covers most foreign trade procedures. The system handles manifests and customs declarations, accounting procedures, and transit and suspense procedures, and generates trade data that can be used for economic statistical analysis.

B

Balance Sheet – A statement of the values of the stock positions of assets owned and liabilities owed by an institutional unit or group of units, drawn up in respect of a particular reporting period in comparison with the stock positions at the beginning of the reporting period. The main balancing item on the balance sheet is net worth, which is the total value of assets minus the total value of liabilities. A change in net worth, which is a function of the variation between revenue and expenditure or other economic factors, is a fiscal indicator for assessing the sustainability of fiscal activities. As the produce of full balance sheets require accrual accounting, only relatively few governments produce full balance sheets.

Budget Financial Plan of Action – A statement of how a government intends to spend planned revenue within the fiscal year to deliver public goods and services to the people or community it serves in the most efficient and effective way.

Budget Cycle – The four distinct stages in the budgeting process, namely budget preparation, budget approval, budget implementation and post-budget implementation.

Budgeting – The process of compiling data on revenue and expenditure estimates, including costing of revenue measures, programmes and activities. The process also entails the prioritisation of competing expenditure needs within the constraint of the estimated resource envelope.

C

Cash Accounting – An accounting method that records income upon receipt and expenses when payment is made.

Cash-flow – The amount of income generated and expenditure incurred in a given period.

Cash-flow Management – Actions taken to ensure that liquidity is sufficient to meet mandatory expenses at any given time.

Chart of Accounts – System of classification of transactions (revenue, expenditure and financing) used for accounting purposes.

Classification of the Functions of Government (COFOG) – Functional classification of expenditure developed by the United Nations. It employs the Government Finance Statistics standard and contains ten (10) main functions at the highest level and sixty-nine (69) functions at the second (sub-functional) level.

Consolidated Fund – primary fund into which all government revenues and receipts are credited. It is held by the Bank of Zambia which is the banker to the Government.

Commitment – Contractual obligation to make a payment in the future.

Cost-drivers – Cost elements that drive the expenditure of a project or spending entity, such as the number of school children, patients, kilometres of roads and number of employees.

Cost Effectiveness – The achievement of intended outputs and outcomes at lowest possible cost without compromising quality.

Creditworthiness – A valuation of a borrower's chances of defaulting on or meeting his/her debt obligations by considers such factors as repayment history and credit score.

D

Devolution/devolved governance – The statutory transfer of political, administrative and financial powers from the central government of a sovereign state to the sub-national level, such as a regional. Devolution differs from delegation and de-concentration in that in devolution, administrative, political and financial powers are vested in elected sub-national governments, such as district councils, whereas deconcentrated or delegated powers are subject to Central Government supervision and can be withdrawn anytime.

E

Economic Classification – Budget input categories, such as goods, services, wages, subsidies, interest and capital expenditure.

Economic Fundamentals – Basic economic indicators used to measure the health of a country's economy, including such economic measures as economic growth (GDP); employment rates; interest rates; budget deficits; balance of payment account (relating to exports and imports); level of domestic business confidence; inflation rate; state of, and confidence in, the banking and wider financial sector; and consumer confidence.

Economy (of doing things) – The use of resources to achieve set output targets in the best and cheapest way. It is about reducing the cost of inputs without compromising quality.

Effectiveness – The degree to which set objectives are achieved.

Efficiency – Productive use of inputs, such as money, time, equipment and personnel, in the creation of outputs (products and results). It is about the right use of resources.

Estimates – A statement of the amounts the Government propose to raise or spend on a specific programme or activity in a financial year.

Executive – The President of the Republic, members of the Cabinet, the Administration and Government institutions (MPSAs). The Executive is the arm of government responsible for the formulation and execution of policies.

Expenditure Assignment – The financing local authorities need to be able to deliver assigned public services.

F

Fiscal Decentralisation – A two-dimensional policy that involves either decentralisation of a tax instrument to give local governments the power to raise taxes, or decentralisation of expenditures to give local governments the responsibility to execute expenditure functions in the delivery of services. The Zambian fiscal decentralisation policy is anchored on the doctrine, 'funds follow functions'.

Fiscal Consolidation – A policy of reducing government deficits and debt accumulation to sustainable levels.

Fiscal Risk – The possibility of deviations of fiscal outcomes from what was expected at the time of the budget. Sources of fiscal risks include unexpected changes in macro-economic variables, most notably in the case of exchange rate depreciations, contingent liabilities in the banking system or in the public sector or the Government's interactions with the private sector through PPPs. Risk management refers to the actions taken to assess and manage such uncertainties.

Functional Classification – Categorisation of expenditure according to the purposes and objectives for which it is intended.

G

Government – The party or a coalition of parties that governs by virtue of having gained the most seats in a parliamentary election. The term is sometimes also used more broadly to mean all the three arms of the Government and the institutions under them.

Government Finance Statistics (GFS) – The international standard for classification systems. It provides the framework for economic and functional classification of transactions.

Gross Domestic Product (GDP) – A measure of economic activities in a country. The GDP measures the total monetary value of goods and services produced in a given year. GDP = total consumption, investment, government spending and net export.

H

Horizontal Fiscal Imbalance – A mismatch between the revenue powers and expenditure responsibilities of a government or disparities between sub-national governments at the same level (e.g. between provinces or districts). The disparities are normally equalised through transfers from the Central Government to sub-national governments through the Local Government Equalisation Fund (LGEF).

I

Incremental Budgeting – A budgeting process that takes into consideration the previous year's budget and makes only incremental (minor) adjustments to the new budget.

Inflation – A sustained general rise in prices.

Integrated Financial Management Information System (IFMIS) – An integrated financial management system that automates Government business processes, including the acquisition, allocation, utilisation and conservation of public financial resources. The system allows for financial discipline and control of resources.

Intergovernmental Fiscal Transfers – Transfers from the Central Government to sub-national governments to compensate for gaps between decentralised expenditure responsibilities and revenue-raising abilities, and/or to even out disparities among sub-national governments at the same level.

L

Legislature – The law-making arm of a government comprising elected representatives..

Line-Item Budgeting – A method in which agencies are provided with budgetary appropriations specified in terms of input categories by economic classification.

M

Macro-economics – A branch of economics dealing with the performance, structure, behaviour and decision-making processes of an economy as a whole rather than individual markets. This includes national, regional and global economies.

Medium-Term Expenditure Framework (MTEF) – A budget planning approach and tool that encompasses forecasting of all revenues and expenditures and linking of national plans and medium-term sector plans with the medium-term budgetary framework. The MTEF is the basis for the Annual Budget. It is a three-year rolling financial planning framework linking plans, policy priorities and programmes with multi-year fiscal and economic forecasts and annual budget estimates.

Member of Parliament – A person elected to represent a constituency in the National Assembly or nominated to it by the President.

Micro-economics – A branch of economics that deals with the study of units within the economy, such as firms, markets and individual consumers. It looks at such issues as consumer behaviour, individual labour markets and the theory of firms.

Money Bill – A Bill proposing the imposition of a tax or levy, or the spending of money for a particular purpose. The Appropriation Bill is a money Bill.

O

Operational Efficiency – A situation in which maximum value for money is achieved in the delivery of services.

Outcome – The change brought about by a Government intervention. If the level of malaria falls for reasons which have nothing to do with Government actions, for example, drought, that outcome is not linked to performance. Neither is it a performance outcome if the rate of economic growth increases substantially because the world economy is very buoyant.

Output – Changes in skills or abilities and capacities of individuals or institutions, or the availability of new products and services that result from the completion of activities within a development intervention under the control of an organisation. Outputs are achieved using the resources provided and within the time frame specified. A set of connected outputs lead to an outcome.

P

Parliamentary Oversight – Parliament's constitutional mandate to oversee the performance of Executive functions, including the Executive's compliance with the guiding principles of PFM as provided for in Article 198 of the Constitution.

Public Expenditure and Financial Accountability (PEFA) Assessment Framework – A methodology for assessing public financial management performance that provides the foundation for evidence-based measurement of countries' PFM systems. A PEFA assessment measures the extent to which PFM systems, processes and institutions contribute to the achievement of desirable budget outcomes.

Performance Audit – Audit tool or process used to determine whether an institution or beneficiary of public funds is achieving economy, efficiency and effectiveness in the use of the allocated resources.

Performance-based Grant Systems – Intergovernmental fiscal transfer systems in which the size of Central Government transfers to sub-national governments, or part of the transfers, depends on the performance of the respective local governments. The assessment of performance may include indicators like timely production and passing of budgets, timely and accurate reporting of spending and project implementation progress, number and nature of audit queries, timely and accurate end-of-year financial statement, and level of public participation in the planning and budgeting process.

Performance Indicator – Quantitative and qualitative measures of the efficiency and effectiveness of actions, programmes and organisations.

Portfolio Committee – A Committee of Parliament that exercises oversight over a particular Government department or sector.

Public Procurement – The procurement of goods, services and works on behalf of a public authority, such as a government agency.

Programme Classification – A categorisation of interconnected activities into sets associated with the attainment of specific outputs.

I

Programme Budgeting – The systematic use of performance information to inform decisions about budgetary priorities among competing programmes, based on the programme classification of expenditure.

Public Financial Management (PFM) – The set of laws, rules, systems and processes used by the Government to mobilise revenue, allocate public funds, undertake public spending, account for the money spent and audit results. It also refers to the political decision-making process of formulating economic and financial policies and maintaining fiscal discipline; Budget approval and financial oversight performed by Parliament; and civil society's involvement in the Budget cycle.

Public Private Partnership (PPP) – An arrangement between the public and private sectors with clear agreements on shared objectives for the delivery of public infrastructure and/or public services by the private sector that would otherwise have been provided through traditional public sector procurement.

S

Sub-national/local Government – The collective term for local councils or local authorities made up of elected Councillors and council staff.

Subsidiarity Principle – The idea that decision-making should be taken as close as possible to the citizens or that decision-making and activities should be carried undertaken by the least centralised competent authority.

T

Treasury Single Account (TSA) – A unified structure of Government bank accounts under the management of the ministry responsible for finance, and through which the Government transacts all its receipts and payments, and gets a consolidated view of its cash position at any given time.

V

Value-for-Money – Economy, efficiency and effectiveness (the three E's).

Z

Zero-based Budgeting – The annual line-item re-determination of budgets and costs of activities based on the spending entities' work or business plan.

i. Acemoglu & Robinson, 2012, 'Why Nations Fail' and Dani Rodrik, 2003, 'In Search of Prosperity'

ii. The supreme audit institution will conduct financial and performance (value for money) audits, including forensic audits and other types of audits in respect of projects that involve the use of public funds.

iii. PART XVII article 234. (1) There is established the State Audit Commission read with article 249. (1) There shall be an Auditor-General who shall be appointed by the President, on the recommendation of the State Audit Commission, subject to ratification by the National Assembly.

iv. composed of a president and four vice-presidents who are elected by direct ballot by the national members at Congress.

Funded by the European Union, March 2023.

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